The Blue Crane Route Municipality

Annual Report 2010 / 2011

Province of the Eastern Cape (EC102)

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Tolerance
Trust
Tenacity

PART 1

INTRODUCTION AND OVERVIEW

Ms. M. SCOTT
MAYOR

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A. FOREWORD BY THE MAYOR

It is again that time of the year where I reflect on the path travelled by the Blue Crane Route Municipality (BCRM). This occurs when the present Council is going to step down and hand over the baton to the new cadreship. What I know is that they will continue to lead the Municipality on a good path of changing the lives of our community.

I remember we forged through a serious drought where Somerset East, in particular, did not receive rain for three consecutive years. That led to all three Municipal dams running dry. Strategically, Council approved an R18 million project to build a pipeline from the Orange/Fish River Canal to the three dams. In addition to that, the Council approved a R7 million project for Cookhouse to resuscitate a pipe that will resolve the water problem to the town. The project will be concluded in the 2012/13 Financial Year.

One of the serious worries was our journey to a Clean Audit. The BCRM regressed, because we received a Qualified Audit opinion. We are working hard in ensuring that we reclaim our spot of Unqualified Opinion. This is in line with the Turn Around Strategy that BCRM developed into a MUTAS (Municipal Turn Around Strategy). The MUTAS was then aligned to the Integrated Development Planning (IDP) priorities. These include:

- Spatial Development Framework that was concluded in 2010.
- Water quality that BCRM is engaging with Amathole Water in compliance with both the Water Services Authority / Provision function with an end product of good status in line with Blue and Green Drop.
- The aging infrastructure that is affecting water quality and disposal of sanitation affluent. The BCRM has applied for AUP funding in this instance.
- The Clean Audit project.

The issue of Public Participation has been one of the Key Performance Areas (KPAs) that needed more attention. We have done the following:

- Appointed all Ward Committees.
- Appointed more Administration Staff to support Ward Committees.
- Appointed Officials on Public Participation, Customer Care / Presidential Hotline and a Communications Officer.

Biltongfees (Festival)

The Biltong Festival is beginning to embrace all members of our community. The line-up for the year 2010/11 was impressive. It showed the Rainbow Nation that we are embracing the different cultures that are exposed in our music, let alone the stalls that were displayed during the two days. This investment has created jobs and opportunities in terms of stalls, cleaning services, security, disaster management, etc. The local businesses, bread and breakfasts, shops, taverns, hotels, etc. had their hands full. We wish to thank our main sponsors Castle Lager, AlgoaFM and the Cacadu District Municipality. To Design@Bay, you have done wonders in marketing the event and we exceeded gate entrance with more than 20 000 people.

Let me close by requesting people to read the details of the Report. It is not yet perfect. We want you to read, comment, respond and give feedback so that we can improve. I wish all the Councillors whom I worked with for the last five years all the best. I shall miss your engaging contribution as you serve our people. Let me thank my family for their support, all the Councillors, Senior Managers, staff, unions and more importantly, the people of the five (5) wards we had. In the next term we will have six (6) wards.
God Bless You All!

M N Scott (Ms)
MAYOR

B. AGRICULTURAL STRATEGY

TERMS OF REFERENCE

Problem Statement

The Blue Crane Route Municipality is in the process of finding a solution to the skewed ownership of land locally. The total land ownership in the BCRM is owned by white farmers. They are involved in commercial farming. There are small portions of land owned by the Provincial and National Government. The reason to develop an Agricultural Strategy is to strategise how black people can access the land and work on it. It is a difficult issue, because the costs of acquiring farms are very high.

The area of Cookhouse, Somerset East and Pearston has a lot of people who come from the farms and reside in townships. Their means of living and survival was based on farming. Even now, they live a life of two worlds. In the morning until early evening they are farm workers; and early evening until the following morning they are township fellows. In simple terms, you have 'peasants' and 'proletariat' in the same environment.

MISSION

The BCRM wants to see its residents sharing in the land that is composing its Municipal boundary in line with the provisions of the Constitution.

GOAL

To have black people working on the land that belongs to them.

BOUNDARIES

The areas that are very critical for such an intervention are:

- Cookhouse rural area;
- Somerset East rural area; and
- Pearston rural area.

At least 15% of the land should be accessed so that it can be given to black people. The latter should work on the land and produce food. There is no other place where the community of BCRM could get the much needed jobs, except for working on the land. The opportunity will reduce the ±38% unemployment rate confronting BCRM. There are no huge factories that can absorb the unemployed and make a dent in this crisis. A few factories are trying to make a contribution by appointing locals, but they cannot go beyond their means. People need to employ themselves and be taught how to work on the land, as well as its administrative requirements.

STAKEHOLDERS

There are various stakeholders that would make this process successful. They include:

- Beneficiaries (potential);
- Premier's Office;
- Department of Rural Development and Agrarian Reform;
- Department of Agriculture;
- Cacadu District Municipality;
- Business sector;
- Farming community (Farmers Unions);
- Tertiary institutions;
- Blue Crane Development Agency; and
- Blue Crane Route Municipality, etc.

SOLUTION GUIDELINES

The parties need to have a discussion on the matter and consider the following:

- Acknowledge the problem;
- What led to such a problem;
- Identify alternative solutions;
- Analyse the various solutions;
- Pull the responsive solutions;
- Undertake a SWOT analysis;
- Identify the best alternative;
- Test the alternative and its risks;
- Take the most mitigated solution; and
- Resolve on the option.

This process will enable the BCRM and all its stakeholders to push the boundaries so that the best solution is agreed upon. There are critical issues that normally occur in the process of land acquisition and utilisation:

- Capacity of beneficiaries;
- Funding model;
- Government options to sale of land;
- Fragmentation of grants;
- Expensive costs for purchase;
- Administrative capabilities;
- Knowledge of farming; and
- Adaptation to new environment (from farm worker to owner), etc.

These challenges lead to risks that need to be mitigated in order to ascertain viability of the farm beyond the new owner/s.

ESTIMATED COSTS

Workshop Organisation	R 6 000
Facilitation (1 x 2) @ R850 (8 hours)	
Venue	R 500
Travelling (facilitator) costs R3.50 p/km	
Equipment / material	R3 000
P's & G's (unforeseen)	R5 000
Documentation production	R8 000
TOTAL	**R 22 500**

ASSUMPTIONS

It is assumed that if all of the above could happen, the BCRM will be able to produce an Agricultural Strategy that speaks to all those that reside in the area. The adjacent Municipalities will also benefit from the exercise, because of the comparative environment in their areas of jurisdiction.

The farming community will have certainty in terms of the direction of the BCRM strategic direction when it comes to land and agriculture.

The farm workers will also be shown the opportunities and the government policy when it comes to their plight, which will, in the long run, benefit their children receiving education and training in the field of agriculture.

The various investors will also have certainty in terms of their long-term investment in the farms around BCRM.

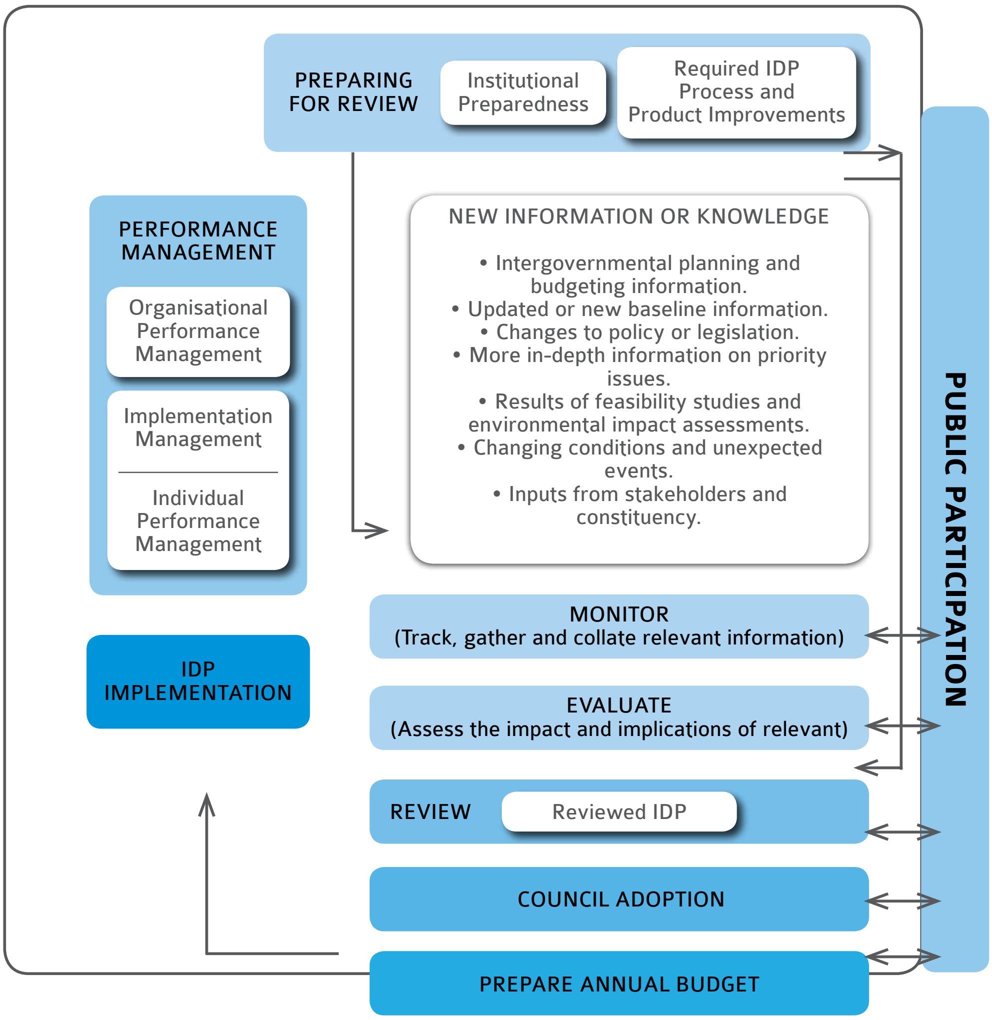
The BCRM will have a blueprint in terms of navigating through the transformation agenda when it comes to land and agriculture access.

RISKS

- The farms in food securing will be clarified.
- The farms in game farming will be within the strategy.
- The wind energy farms / solar energy farms will undertake such events in line with policy.
- The dairy farms that support DairyBelle in the area of BCRM will have certainty.
- The grazing land will be well defined.
- The opportunities in sugar beet, citrus, tomatoes, etc. will be located within the strategic focus.

CONCLUSION

We wish to appeal to the Department for support with this initiative. The process to draft the strategy and the plan will enable the BCRM to ensure that the Government priority related to land and agriculture is achieved.



Mr M. A. Mene
MUNICIPAL MANAGER

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C. ANNUAL PERFORMANCE REPORT

INTRODUCTION

The Blue Crane Route Municipality is a Local Municipality. It forms part of the Cacadu District Municipality (CDM), which consists of eight other municipalities. The CDM supports its local municipalities in order to ensure that they perform their functions. It is in this context that the Blue Crane Route Municipality (BCRM) has positioned a program for the 2010/2011 Financial Year. This program is a product of the Integrated Development Plan (IDP) and Budget process that was approved by Council in 2009/2010 for implementation in the current Financial Year. The program is linked to the objectives set and Key Performance Areas (KPAs) projects that were to be undertaken for the year 2010/2011. The various directorates were then responsible for the implementation of such KPAs.

The Municipal Systems Act 32 of 2000, Section 46 entails and dictates what must be done by a municipality in terms of reporting on the above.

The fundamental areas include:

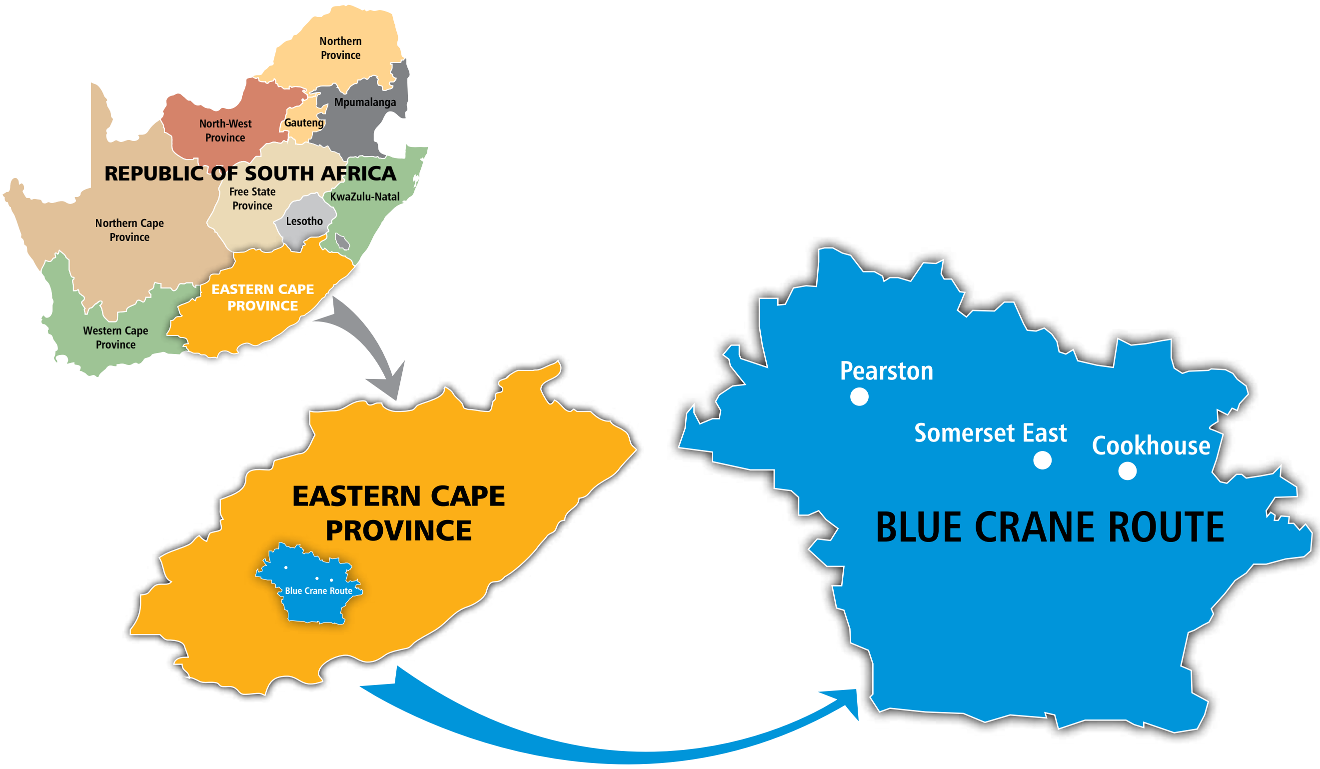
- Performance of the BCRM;
- Comparison in terms of targets set; and
- Corrective measures taken.

The above will now be further discussed in this Report.

PURPOSE

The strategic intent of this Report is to account for the performance of the BCRM against the pre-determined objectives. Targets are then set to guide performance and it is assessed quarterly. Finally, an annual assessment is done so that it forms part of the Annual Report when the audit by the Auditor-General is concluded.

The following template will look at the objectives, KPAs, actual performance, challenges and some corrective measures.



OBJECTIVE	KPA	PERFORMANCE	CHALLENGES (CORRECTIVE ACTION)
Ensure that the landfill site is fenced for safety and health reasons.	Fencing of landfill site. R62 0000 budget.	The project went out on tender. The applications were beyond the reserve price. The tender was not awarded.	The decision was to have a cooling period and then implement the project with EPWP Learnership of Public Works.
The BCRM should remain clean and ensure that interventions are undertaken.	Undertaken clean-up campaign in December 2010. R300 000 budget.	Clean-up campaign was done in Somerset East, Cookhouse and Pearston.	The campaign was not fully completed due to vehicle breakdowns. Council will procure a new fleet for the 2010/11 period.
Ensuring that there are sport and recreation facilities.	Upgrade and develop three parks in Somerset East, Pearston and Cookhouse. R650 000 budget.	The fencing, equipment and installation were done. There is a shortage of funds and a need for a second phase.	The budget was not enough. Still to do more upgrading for 2011/12 Financial Year. Not operational yet.
Keeping trees safer for electricity lines and residents.	Felling of trees. R300 000 budget.	The trees were trimmed and uprooted. The size of work in Old Location, Town, New Brighton and Cookhouse has led request for tenders. The tenders were beyond the reserve price. The project stalled.	Management agreed to advertise and phase the project to allow for scaling down project scope.
The cemetery provision is critical for burial as the available ones have a problem of being full.	To develop a cemetery in Aeroville. The EIA and Design be undertaken. Operations Budget.	The ROD was received and a design is in place. The challenge is the budget to implement the project. The ROD will lapse in January 2011/12.	The Management agreed to phase the project. To attend to it in 2012, January Adjustment Budget.
Traffic safety for the community.	Marking of roads and installing signs in the BCRM. ±R250 000 budget.	Road signs are marked in Cookhouse, Somerset East and Pearston.	The project needs monitoring as it is critical for road safety.
Traffic Safety	Build speed bumps / humps in all areas where there are schools and long streets where people are speeding. Maintenance Budget.	Ten (10) speed bumps have been erected. The others are in the process of being built.	A need to prioritise areas closer to schools to assist the School Patrol Program.
Traffic Safety	A need to erect street names in BCRM, especially the Phase Two (2) Plan.	The project includes areas without street names. (Names were received). Street names spelt incorrectly. Streets that were missed. The project is done internally with project management in place.	The project is slow due to concerns around the Company that undertook Phase One (1). Hence Phase Two (2) is done internally.
The BCRM needs to have a Disaster Management Plan to mitigate disaster.	Develop Disaster Management Plan. Funding / Resources by CDM.	The Disaster Management Plan was approved by Council.	The Committees are not sitting as required by the Policy.

OBJECTIVE	KPA	PERFORMANCE	CHALLENGES (CORRECTIVE ACTION)
The Primary Healthcare (PHC) is a Provincial function.	A need to transfer PHC to Province by January 2011.	The Transfer Agreement was signed with the Department of Health in December 2010.	There is still a need to resolve the issue of asset transfer (buildings).
BCRM needs to comply with all GRAP standards especially on assets (17).	All managers who procure assets need to ascertain if they are in the Asset Register before use.	The Supply Chain Unit has been pro-active and supporting managers in this regard.	A need to build the capacity of the SCM Unit in order to ensure that all assets are in the Register.
A need to ensure that customer complaints are listened to and attended to.	Develop a Customer Care Register.	A Register is located at Finance and Technical Services. Overnight there is a call number where the community can register complaints for attention.	The process is not running smoothly, especially on turn around time. We have identified an official to deal with Customer Care.
The MFMA requires that BCRM submit reports.	Submission of S71 Reports monthly. Same applies to S72.	BCRM submits all S71 Reports duly, as well as the S72 Report.	
The MFMA and Systems Act requires that BCRM develop an action plan in response to Auditor-General Audit outcome.	Develop an action plan for Auditor-General Audit Report in 2011.	An Action Plan for Auditor-General Audit Report was developed and acted upon.	The concern is when the Directive four (4) has lapsed. Need to refine the KPI and SDBIP.
BCRM is expected to have an MFMA checklist to test progress on MFMA implementation.	Develop a MFMA checklist so as to check progress on implementation.	MFMA checklist has been developed. The implementation is gradual in line with BCRM size.	Some of the requirements are costly for the size of BCRM.
BCRM should submit IDP and Budget for 2010/11 in order to appropriate its income in line with set targets.	Submit IDP/Budget aligned with 2010/11 Financial Year.	The IDP and Budget, aligned was submitted to Council from draft to final process of approval.	The quality of IDP is still a challenge. The funding of priorities, infrastructure and maintenance is a challenge. Refocus our attention for 2011/12.
All the appropriations should occur against a Policy backdrop.	Develop or review the Budget Policies / Policy Statements for 2010/11.	All the Policies related to the Budget Statement were presented to Council and approved for 2010/11.	A need to consistently check the Treasury requirements in line with Policy on Budget.
A need to ensure BCRM is GRAP compliant.	BCRM to undertake GRAP conversion with special focus on assets.	The BCRM has identified its assets and registered them in the register.	The challenge is the next move of componentalisation and age perioding. It is costly.
Land use. Register sites with Deeds Office.	To register 400 sites with the Deeds Office.	More than 350 sites are registered.	A need to attend to the wrong registrations.
Cookhouse is landlocked and needs land for housing.	Apply for the Transnet land. Link with Housing Development Agency (HDA).	The application and deputation was done with Human Settlement and HDA. There is a letter where the Department has confirmed a request from HDA for BCRM beneficiaries.	The process is really slow as there are people who are destitute. Applied for temporary shelters.

OBJECTIVE	KPA	PERFORMANCE	CHALLENGES (CORRECTIVE ACTION)
There is a need to be guided by Policy in the Development of Housing.	BCRM to develop a Housing Sector Plan for 2010/11.	The sector plan could not be reviewed because the Department of Human Settlement is to do so in line with Policy change / shift. They appointed consultants to do so.	The process is very slow. The BCRM is still using the old Sector Plan.
A need to acquire land for housing and agriculture.	To submit two (2) Deeds of Sale to the Department of Land Affairs.	Two farmers signed Deeds of Sale, which were submitted to the Department of Land Affairs for buying.	No response from the Department. The issue is still being attended to.
The BCRM needs to have a special setting to dictate its development.	Review the Spatial Development Framework (SDF) by 2010/2011.	The SDF was reviewed for 2010/11 and approved by Council. The support was from CDM.	A need to attend to some of the shortcomings of the SDF.
A need to have a Library in Aeroville and upgrade Cookhouse and Pearston's facilities.	An application to be made for a Library in Aeroville. An application to upgrade Cookhouse and Pearston Libraries.	An application for a Library in Aeroville was done. An allocation of R800 000 has been provided. The other two will be considered after completion of the Aeroville project.	Supply chain issues between CDM / BCRM is slowing the project down.
The community of Aeroville does not have a Hall.	Build the First Phase of Aeroville Hall in 2010/11. R400 000 allocated for phase. Apply to MIG.	The project team is busy with designs and branding of the Library. Land has been acquired.	Linkage with Library is delaying the Hall being built.
The staff of BCRM needs to be trained.	Develop a Workplace Skills Plan (WSP) for 2010/11. Supported by the established Training Committee.	A needs analysis was done and put together into a Workplace Skills Plan. A WSP is available.	The Training Committee to drive training is not sitting as required. Means to jerk it up set.
There is a need to establish Ward Committees and link with Community Development Workers (CDW).	Establish Ward Committees. Train them. Link them with CDWs in their work in Ward 5.	All Ward Committees were established. They were trained by the Nelson Mandela Metropolitan University. Given stationery. Set meeting to align with CDW and Management on priorities and performance.	The Ward Committees do not sit regularly. The challenge of their last term in office made them slow down.
The Employment Equity Act requires BCRM to have an Employment Equity Plan (EEP).	BCRM to develop an Employment Equity Plan.	Only a Draft Plan has been developed.	There is concern as to why it is not going through. It will be submitted during Policy Review.

OBJECTIVE	KPA	PERFORMANCE	CHALLENGES (CORRECTIVE ACTION)
The BCRM has to ensure that it has sustainable water for Cookhouse and Somerset East.	Build a Bulk Pipeline to draw water from Orange/ Fish Canal. R18 million budget. Cookhouse to follow in 2011/12 period. R7 million budget.	The Bulk Pipeline has been built. It was about 75% completed by June. It will be fully commissioned in October/November 2011. The Cookhouse Water Augmentation will commence after the above project.	The project is professionally done by all parties.
A need to have public ablution facilities in Somerset East Central Town.	Identify a site. Advertise for interest. Look for funding.	A site has been identified and discussed with adjacent property owners. There was no objection on the proposed site. There is a process to look at design.	Consultation process and alternatives are delaying the project.
A need to abolish the conservancy / septic tank in Pearston and Cookhouse.	Do a study of the project and cost thereof. Apply to MIG.	A study was done. An application made to MIG. The results are negative as they do not form part of the criteria.	Trying to look for Accelerated Infrastructure Program (ACIP) funding from DWA.
The Waste Water Treatment Works (WWTW) in Cookhouse is insufficient.	Apply for an ROD to upgrade / build the WWTW in Cookhouse.	The designs have been done. The Consultants have finally submitted the EIA in order to acquire ROD.	The DairyBelle upgrade and their strategic importance has delayed the project because of their affluent to be deposited in the WWTW.
To ensure that streets are re-gravelled, paved and resealed.	Re-gravel the streets after rains. Paving of streets in six Wards. Reseal the potholes.	Re-gravelling is done, but not very effective due to equipment. Paving is done, but slow due to equipment. Resealing is done, but potholes re-appear due to quality of material.	Mobilising funds to buy and refurbish grader. Reseal material (tar) quality has been attended to.
The Mayor needs to identify community priorities. Municipal Manager to support.	Develop IDP in order to link with budget for 2010/11.	The IDP was prepared in line with the Process Plan.	The quality of IDP. The SMART of KPA/KPI.
The departments, parastatals and other stakeholders need to be co-ordinated at local level.	Establish the Intergovernmental Relations (IGR) structure at BCRM.	A meeting was convened of all departments to conceive the IGR. Subsequent to that the decision was that the Mayor should lead IGR.	IGR Framework Act is silent on local municipalities. The structure is not there. The IGR is a political structure, in real terms.
The Blue Crane Development Agency to focus on economic development / attract investments.	Develop a Memorandum of Understanding (MOU) with BCDA.	The MOU is signed with BCDA and what has to be done going forward.	Funding is a challenge to implement projects and create incentives for infrastructure to attract investors.

OBJECTIVE	KPA	PERFORMANCE	CHALLENGES (CORRECTIVE ACTION)
A need to ensure that IDP is assessed on its performance.	A Performance Management System (PMS) to be designed to ensure proper assessment.	A Policy Framework has been done. An SDBIP has been developed. Contracts have been developed and signed for Section 56 and 57. Assessment is performed.	Need to improve SDBIP. Assessment needs to be automated to ensure that all is done per date. A need to provide evidence in quarterly reviews.
A need to have Information Communication Technology (ICT) at the core of BCRM operations.	Develop an ICT Committee. Develop an organogram. Develop priority projects. Attend to priority areas.	The ICT Committee is established. The structure has been set. ICT Strategy is prioritised. All operational issues are being implemented.	Funding is a challenge. Staff compliment.
A need to combat HIV/ AIDS.	Appoint an HIV/AIDS Co-ordinator. Develop a Plan for HIV/ AIDS. Observe events and establish a structure and programs.	HIV/AIDS co-ordinator was appointed. The co-ordinating structure is established with other Departments. All events are being observed.	There is no local / municipal / internal plan on HIV/AIDS. The HIV/AIDS Co-ordinator has resigned.

NATIONAL TARGETS

The Blue Crane Route Municipality provides the following services to the Community:

- Water;
- Sanitation;
- Electricity; and
- Solid waste.

There is universal access to these services for the BCRM community. The challenge lies in the informal settlements:

- The Cookhouse informal settlement resides at Spoornet / Housing Development Agency land. BCRM do provide services, but they are not of RDP standard. That is why BCRM has applied to acquire the land in order to do proper development and provide services.
- The Somerset East (Ezinyoka) informal settlement is in an inhabitable terrain (dongas) and need to be moved to a 'transit area'. The process is underway. They do receive basic services, but not at RDP standards, e.g. bucket system. About 85 families reside at this informal settlement.
- The farming community (farm workers residences) are being electrified by the BCRM through a grant from the Department of Minerals and Energy. This is done in co-operation with farm owners.

JOBS CREATED/OPPORTUNITIES

PROGRAM	OPPORTUNITIES
Paving	106
Operation clean-up	90
Water provision	36
Road maintenance	30
Local Economic Development	50
Mayoral projects	280
TOTAL	**592**

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WAY FORWARD

The Annual Report of 2009/10 raised a few issues for attention. Let the Report assess what has happened since:

- The IDP is being given special attention for the period 2012 – 2016. This is an appointment of an IDP/PMS Officer.
- The SDBIP has been commissioned to PriceWaterhouseCoopers (PWC) and has improved.
- The Key Performance Areas / Indicators (KPA/ KPI) are being refined through the PWC initiative.
- The procurement of a computerised system to assist with reviews is almost complete.
- The internal auditors (KPMG) are ensuring that review and audit of those are undertaken. They provide feedback so that the people concerned act on those issues, within time frames.

  They do report to the Audit Committee. The Audit Committee need to report to Council.
- The Mid-Year Report could not be taken to the community due to congestion of time frames on Elections, IDP Process and Budgets.

CONCLUSION

The BCRM is gradually setting itself in order so that the work done could be seen and translated into better service provision. There are teething problems, but all will ease off with the growth path that has been set by Council.

Mr M.A. Mene
MUNICIPAL MANAGER

PART 2

ACHIEVEMENT REPORTS (KEY PERFORMANCE AREAS - KPAs)

CHAPTER 1: HUMAN RESOURCES AND OTHER ORGANISATIONAL MANAGEMENT (KPA 1)

1.1 PRESENTATION OF THE ORGANISATIONAL STRUCTURE

- The total number of approved posts of the entire institution is 372.
- The total number of vacant posts in the entire institution is 84.
- There are five Employment Contracts and five Performance Agreements of the Municipal Manager and Section 57.
- Managers submitted to the Department of Local Government and Traditional Affairs.

1.2 STAFF DEVELOPMENT INITIATIVES DURING THE FINANCIAL YEAR

TRAINING	FUNDING	AMOUNT	ATTENDEES PER DEPARTMENT					
			Municipal Manager's Office	Finance Department	Corporate Services	Community Services	Technical Services	Council
Intro to Computer	DBSA	R87 500.00	0	2	6	11	6	0
Excel Computer	DBSA	R93 500.00	4	4	4	3	2	0
Water purification	LGSETA	R225 000.00	0	0	0	0	15	0
Social Auxiliary	LGSETA	R690 000.00	4	0	3	20 + 20 unemployed		1
ABET	DOE	R114 000.00				11	27	
Certificate Program Municipal Development (CPMD)	LGSETA	R 70 000.00			1	1		
Certificate Program Municipal Finance Management (CPMFM)	LGSETA	R175 000.00		5				
MIDP	LGSETA	R60 000.00			4			
ODETDP	LGSETA	R15 000.00			1			

1.3 KEY HUMAN RESOURCES STATISTICS PER FUNCTIONAL AREA

1. Full-time staff complement per functional area (examples are given below)

a. Municipal Manager/Section 57 employees and Line Managers

	Approved positions (e.g. MM-S57, etc.)	Number of approved and budgeted posts per position	Filled posts	Vacant posts
1	Municipal Manager	1	1	0
2	Manager - Financial Services	1 1	1 1	0

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Approved positions (e.g. MM-S57, etc.)	Number of approved and budgeted posts per position	Filled posts	Vacant posts
Manager - Corporate Services	1	1	0
Manager - Technical Services	1	1	0
Manager - Community Services	1	1	0
Total	5	5	0

b. Functional areas per organogram (e.g. Technical Services)

	Approved positions (e.g. Managers/Assistant Managers, etc.)	Number of approved posts per position	Filled posts	Vacant posts
1	Municipal Manager's Office	11	7	4
2	Technical Services	136	111	24
3	Community Services	122	109	13
4	Financial Services	47	36	11
5	Corporate Services	49	41	8
	Total	**365**	**304**	**60**

2. Technical staff registered with professional bodies

Technical Services (e.g. water, electricity, etc.)	Total number of Technical Service Managers	Total number registered with accredited professional body	Total number pending registration or confirmation with accredited professional body	Total number not yet registered with accredited professional body
Electricity	1	1	0	2
Housing	0	0	0	2
Water	0	0	0	0
PHC	0	0	0	0
EHP	0	3	0	0
Administration	0	0	0	1
Finance	0	1	0	1
Engineers	0	0	0	2

Continue on next page

Technical Services (e.g. water, electricity, etc.)	Total number of Technical Service Managers	Total number registered with accredited professional body	Total number pending registration or confirmation with accredited professional body	Total number not yet registered with accredited professional body
Traffic	0	2	0	0
IMPSA	0	0	0	1
Technical	0	11	0	13
ICT	0	0	0	1
LED	0	0	0	1

3. Levels of education and skills

Total number of staff	Number of staff without Grade 12	Number of staff with Senior Certificate only	Number of staff with tertiary/accredited professional training
304	174	38	92

4. Trends on total personnel expenditure

Financial Year	Total number of staff	Total approved operating budget	Personnel expenditure (salary and salary related)	Percentage of expenditure
2006-2007	285	R 63 426 534.00	R 26 544 557.00	42%
2007-2008	293	R 73 360 621.00	R 29 156 595.00	46%
2008-2009	294	R 117 180 228.00	R 32 734 894.00	28%

5. List of Pension and Medical Aids to whom employees belong

Name of Pension Fund	Number of members		Name of Medical Aid	Number of members
Cape Joint Retirement Fund	77		LA Health	15 + 11 pensioners
SALA	98		BONITAS	41 + 7 pensioners
SAMWU Provident Fund	116		SAMWUMED	10
Cape Joint Pension Fund	1		KEY HEALTH	1
Municipal Council Pension Fund	0		HOSMED	1

6. List of Pension Funds and Medical Aids

Name of Pension Fund	Number of members	Name of Medical Aid	Number of members
Cape Joint Pension Fund	1	BONITAS	41 + 7 pensioners
Cape Retirement Fund	77	LA Health	15 + 11 pensioners
Sala Pension Fund	98	SAMWUMED	10
SAMWU Provident Fund	116	KEY HEALTH GOLD	1
Councillor's Pension Fund	0	HOSMED	1

The Council is up-to-date with all the statutory obligations for the year under review.

1.4 PERFORMANCE MANAGEMENT SYSTEM

The BCRM used the Howard Cook System for the 2006/07 Financial Year. In 2007/08, the Council concluded that it would use a much friendlier system. A request was made to the Cacadu District Municipality (CDM) for support. The CDM concluded a deal with German Technical Support (GTZ) to provide the support. An inception meeting was held, and a plan was drawn up for a way forward. The process was intended to create:

- A process plan.
- Framework.
- Scorecard.
- Individual Performance Contracts; and
- A process to allow cascading of the system.

The process was delayed due to the appointment of a service provider. Nonetheless, the Performance Management Contracts (PMS) were drawn up for Senior Managers and all the quarterly reviews were undertaken. In the middle of the Financial Year, when it became clear that the framework would not be concluded, an interim contract was constructed to guide the PMS process. The whole idea was to approve it with the actual framework.

CHALLENGES

The PMS's challenge was formulated:

- Framework for 2008/09 and 2009/10.
- Scorecard.
- A process to allow cascading of PMS; and
- An incentive scheme for below Senior Management staff.

1.5 ANNUAL PERFORMANCE AS PER KEY PERFORMANCE INDICATORS IN MUNICIPAL TRANSFORMATION AND ORGANISATIONAL DEVELOPMENT

	Indicator name	Total number of people (planned for) during the year under review	Achievement level during the year under review	Achievement percentage during the year	Comments on the gap
1	Vacancy rate for all approved and budgeted posts	23	6	21%	Other positions are being advertised. Awaiting short listing and interviews.
2	Percentage of appointments in strategic positions (Municipal Manager and Section 57 Managers)	5	5	100%	

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3	Percentage of Section 57 Managers including Municipal Manager who attended at least one skills development training course within the Financial Year	4	4	100%	
4	Percentage of Managers in Technical Services with a professional qualification	3	1	87%	
5	Percentage of municipalities that have adopted the Performance Management System within the district area (DM only)	All	All	All	All
6	Percentage of staff that have undergone a skills audit (including competency profiles) within the current five-year term	288	288	100% - in terms of capturing the information and prioritising skills needs.	
7	Percentage of councillors who attended skills development training within the current five-year term	0	0	0%	
8	Percentage of staff with disability	3	0	3%	The Council is about to address the issue of disability.
9	Percentage of female employees			31%	
10	Percentage of employees that are aged 35 or younger			67%	

1.6. MAJOR CHALLENGES AND REMEDIAL ACTIONS IN REGARD TO HUMAN RESOURCES AND ORGANISATIONAL MANAGEMENT

The Municipality, like all other small municipalities, is facing a challenge in attracting scares skills. This compels the Municipality to continue outsourcing services such as appointing chairpersons for disciplinary hearings. Training through the Workplace Skills Plan will assist in overcoming many of these challenges as targeted training programs are arranged to facilitate employees.

CHAPTER 2: BASIC SERVICES DELIVERY PERFORMANCE HIGHLIGHTS (KPA 2)

2.1 WATER SERVICES

a. Water Services delivery strategy and main role-players

BCRM operates as WSP and WSA for all water services in the municipal area. Somerset East is located in the Local Municipal Area of the BCRM, which is located within the Cacadu District Municipality.

The three main towns in the BCRM are: Somerset East, Cookhouse and Pearston, with Somerset East being the economic and social hub of the Municipality. To supply water to the different areas, the Municipality obtains its water from the Orange/ Fish Irrigation Scheme, boreholes and surface down flows.

Somerset East

Bulk water supply for Somerset East originates from fountains situated in the mountains, boreholes and extraction from the Orange/Fish River Scheme via the Somerset East Irrigation Sub-Area Canal. Water consumption demand is currently putting great pressure on some parts of the supply infrastructure where water supply bottlenecks appear to be problematic.

The current extraction exceeds the registered volumes of that from the Canal as well as the supply from the Bestershoek area.

Cookhouse

Cookhouse extracts its water from the Hougham Abrahamson Canal and the Boschberg Canal. The only registered supply is that from the Hougham Abrahamson Canal and the current extraction volume exceeds the registered allocation.

Legal requirements regulating the water supply to Cookhouse need to be attended to.

Pearston

Only boreholes supply the town of Pearston with water. The borehole supply is registered and in line with the specific water use, but the registered allowable volumes of extraction is not realistic and needs to be reviewed.

b. Levels and Standards in Water Services:

Somerset East

The bulk raw water supply for the town of Somerset East consist mainly of the extraction of Orange/ Fish River Scheme water from the Somerset East Irrigation Sub-Area Canal (SEISA), supply from boreholes and supply from fountains and mountain runoff in the Bestershoek area. Raw water is extracted from the SEISA Canal where it is currently pumped to the Orange/Fish Water Purification works at a rate of 94m3/hr. The allocated extraction limit from the Canal is 100m3/hr.

The Orange/Fish Purification Works was designed to treat a capacity of 54l/s, but can only achieve a maximum output of 45l/s. The total amount of raw water that was pumped from the SEISA Canal in the last year was measured to be 1803m3/day on average with 133 days pumping totalling 239 799 m3/a. Actual measured volume extracted from the Canal was 226 244m3.

During rain, runoff water accumulates in the Bestershoek catchment area. The runoff supplies the Bestershoek Dam, which overflows into the Van Der Walt Dam lower down in the same valley. Overflow water from the Van Der Walt Dam is

channelled to Lake Bertie. All three holding dams are earth dams. Lake Bertie is situated approximately 2.7km south east from the Van Der Walt Dam.

Several fountains draining from the Bestershoek Valley and mountains feed into the Bestershoek Dam. These fountains have been developed in the past and feeds down to the Bestershoek Dam in pipelines. During dry seasons or drought the yields of the fountains seized.

Raw water is extracted from the outlet structure of the Dam to the Bestershoek Purification Works beyond, by means of gravity. The incoming raw water supply is measured at the works. Raw water is also pumped from the Van Der Walt Dam lower down the valley to the Purification Works at Bestershoek having a purification capacity of 27l/s.

Cookhouse: Extraction from Hougham-Abrahamson Canal

The extraction from this point is by means of a pump system. The water is extracted from the canal by means of flooded suction from a sluiced take-off into the pump house from where it is pumped by means of a 150mm diameter pipeline to the newly constructed water treatment works with a capacity of 53l/s. The length of the pipeline is measured to be approximately 1800m. The water extraction from the canal is measured by means of a water meter situated on the suction line into the pump house. An agreement existed between the Hougham-Abrahamson Irrigation Board and the Cookhouse Transitional Council for the extraction of a maximum of 100m3/hr subject to a maximum of 365 000m3/annum (29.2ha) of raw water . Currently the measured extraction rate is calculated to be approximately 52m3/hr on average. The pump station is equipped with 2 pumps with 22kW electric motors with a maximum capacity of approximately 55m3/hr.

From the above it is calculated that the current pumping rate is 55% of the volume agreed upon in the existing agreement and we are therefore of the opinion that the existing pump station and rising main has been under designed for optimum utilization of the available water from the Canal. No records of registration exist of the 40Ml retention dam at the new WTW.

Cookhouse : Extraction from Boschberg Canal

The Boschberg Canal was originally constructed - as a community scheme by the members of the Boschberg Sub-Area (formerly the Boschberg Irrigation Board) - to a capacity that was determined by the needs of the members. The Scheme was funded by the members. The Boschberg Canal feeds from the Orange/Fish River Canal and supplies water to its members downstream until it ends at the Van Aardt Dam adjacent to Cookhouse - privately owned by a local farmer.

With the serious shortage of portable water for the town of Cookhouse, the Cookhouse Local Council approached the Boschberg Sub-Area at the time regarding an interim agreement that the Council would be able to use "excess overflow water" not utilized at the time by the members of the Board. A verbal agreement was made that in exchange for assistance in maintaining the Canal and the sealing of the Van Aardt Dam, the Council could utilize the excess water. There is no evidence of any volumes mentioned.

The Council, as result of the "gentlemen's agreement", had a sluice distributor and a pipeline constructed from the end of the Boschberg Canal to the new water treatment works in Cookhouse. The pipeline is 315mm dia. uPVC. The Municipality made use of the excess water from the Boschberg Canal by means of this system, but could never rely on a guaranteed supply from the Canal. In 2005, the Blue Crane Municipality formally applied to the Department of Water Affairs for an allocation of water via the Boschberg Canal. It was turned down by the Boschberg Sub-Area stating that no permanent excess capacity was available. They did, however, agree to temporarily assist should excess capacity be available.

Pearston: Extraction from Boreholes

The water supply to the town of Pearston is completely dependent on the supply of water boreholes. In total, three boreholes contributes to the bulk supply of water to the town. The greater extraction is done from the Rustenburg Borehole. Some small farmers, as well as the main supply to town are relying on the supply from this one source.

c. Annual performance as per key performance indicators in water services

	Indicator name	Total number of households/ customers expected to benefit	Estimated backlogs (actual numbers)	Target set for the Financial Year under review (actual numbers)	Number of households/ customers reached during the Financial Year	Percentage of achievement during the year
1	Percentage of households with access to portable water	100%				
2	Percentage of indigent households with access to free basic portable water	35%				
3	Percentage of clinics with access to portable water	100%				
4	Percentage of schools with access to portable water	100%				
5	Percentage of households using buckets					

d. Major challenges in Water Services and Remedial Actions

The following challenges are faced by the BCRM:

Pearston

Pearston obtains its water from boreholes only. One of the boreholes (Rustenburg) supplies approximately 70% of the town's water. Consumption increased with the bucket eradication program and the borehole is over exploited. If this borehole collapses, the town will be left without sufficient water.

Somerset East

Water is obtained from surface water that is seasonal and rainfall dependent, as well as water from the Orange/Fish Irrigation Scheme. The town is dependent on the only reliable source, being the Orange/Fish Canal supply. A project has been completed and it's being implemented with a new bulk water pipeline to ensure that the town will be able to overcome any water shortage threats in the future.

Cookhouse

Due to the fact that Cookhouse was administered by the old Transnet, all assets and rights still reside with Transnet. The town is dependent on water from the Orange/Fish Irrigation Scheme and has no surface or borehole sources. The present water supply to the town is not reliable, and a pipeline is required from the Orange-Fish Scheme to secure sustainable water to the town.

2.2 ELECTRICITY SERVICES

Blue Crane Route Municipality's electricity covers an area of approximately 9900km2; this includes

the three (3) towns, Somerset East, Cookhouse and Pearston, as well as an extensive farming community. The supply ranges from a full connection in rural and urban areas and prepaid to a ready board system, the Municipality has its own distribution licence to supply electricity to rural and urban areas within its boundaries. Our maximum demand hovers in the region of 15, 5 MVA.

Because of development in Blue Crane Route a request was sent to Eskom and our demand adjusted from 16 MVA to 18 MVA.

New developments and expansion:

1. Electrification of 34 shacks in Cookhouse and RDP houses in Church Street.
2. Electrification of 166 farm worker houses in rural areas.
3. Electrification of project of RDP houses in Pearston.
4. New high-rise pump station in Somerset East.
5. New developments at DairyBelle cheese factory in Cookhouse.
6. In Chris Hani and Old Location approximately 240 houses have either been electrified or the connections transferred from one shack to newly built RDP houses.
7. There are 435 rural transformers that supply electricity to dairy farms, chicken farms, piggeries, ostrich farms and irrigation farms producing animal fodder, vegetables, grain, etc.

The favourable conditions in the rural areas led to the development of several new centre pivots and dairy farms in the region.

The following upgrades were done to the electricity network to accommodate the developments:

1. Five regulators have been installed on Eastport HT line strengthen supply.
2. A new 22 kV power line was built from Somerset East to Pearston.
3. The main supply to Cookhouse was strengthened with new cables and switchgear and two new 200, a regulator as well as a new overhead line in Cookhouse.
4. A low tension line was built in Buikkant Street in Pearston with street lighting.
5. Sport lights were installed at the sport field in Pearston.
6. New streetlights were installed in Millennium Park, Pearston.
7. Streetlights in Nojoli Street in Somerset East were equipped with yellow sodium lights.
8. Spotlights were installed in dark areas in Mnandi.
9. Electricity is supplied to the pump station in Clevedon for a new high-rise project with a switch gear, an 11 kV cable as well as an overhead line with a 500kVA transformer.
10. A 5 MVA transformer has been purchased for Wellington Grove and Middleton power lines.
11. A 6 MVA transformer has been purchased for the Eastpoort/Klipfontein power line. A new plinth was cast for these transformers.
12. The main substation was extended for installation of new equipment.

The percentage income from electricity sales:

Municipality	0.8%
Commercial	11.0%
Industrial	11.5%
Residential	27.8%
Agricultural	48.8%

Challenges:

Infrastructure continually needs upgrading as the network ages and expansion occurs.

Possible solution:

Ring-fencing exercise has been completed.

Staffing:

The Electricity Department staff delivers a good quality service in the delivery of an uninterrupted supply to consumers.

2.3 SANITATION

a. Sanitation Services delivery strategy and main role-players

As a WSP and a WSA, the Municipality takes full responsibility for sewage disposal and treatment in all towns.

b. Level and standards in Sanitation Services

BCRM has not eradicated all buckets and some of its residents are still using buckets. BCRM is in the process of upgrading the bulk WWTW facilities in all towns and the status is as follows:

Pearston

Pearston has a newly build WWTW facility. The facility has been under-designed and needs to be enlarged.

Somerset East

Residential reticulation in the town is old and requires intensive maintenance actions. At the moment a new activated sludge purification works is under construction in Somerset East to upgrade the WWTW.

The project will be done in phases and the first phase is complete.

Cookhouse

The bulk WWTW needs to be upgraded and the project is under design. MIG funds have been allocated to the project, but the progress has been retarded due to an EIA study that could not be completed in the past three years.

c. Annual performance as per key performance indicators in Sanitation Services

	Indicator name	Total number of households/ customers expected to benefit	Estimated backlogs (actual numbers)	Target set for the Financial Year under review	Number of households/ customers reached	Percentage of achievement during the year
1	Households with access to sanitation services	792	792	300	Still awaiting bulk connection	Already installed but not connected
2	Indigent households with access to free basic sanitation services	100%	100%	100%	100%	100%
3	Clinics with access to sanitation services	100%	N/A	N/A	N/A	N/A

4	Schools with access to sanitation services	99%	1% farm schools	1%	99%	Still to install in farm schools

2.4 ROAD MAINTENANCE

a. Road Maintenance service delivery strategy and main role-players

BCRM has a well established section within the Department of Infrastructure that is building and constructing roads in the Municipality. New roads and streets are under permanent construction in the Municipality.

The existing bitumen surfaced roads are deteriorating, as the Municipality does not have sufficient funding for road maintenance.

b. Level and standards in Road Maintenance Services

The general status of roads in the urban areas of the Blue Crane Route range from tar surfaced in central business areas and higher income residential areas to gravel surfaced and graded roads in the middle- and low income areas respectively.

The maintenance of roads throughout the entire Blue Crane Route Municipal Area (urban and rural) is problematic due to the lack of funding. Urgent attention and funding are needed to address this problem.

The table hereunder indicates the community's needs that were identified during the community participation process.

Table: Roads and Storm Water in context

GEOGRAPHICAL AREA	DEVELOPMENT NEED AND DESCRIPTION
Somerset East	• Upgrading of tarred streets and roads; • Resealing of tarred roads, tarred or paved roads between Abattoir and Mnandi; • Flooding at Koffie Street; and • Possible upgrade of furrow at bottom of mountain.
Pearston	• Tarring of roads, bridge and pedestrian bridge on both sides and tarring of airfield runway; and • Upgrading of major roads to the township.
Cookhouse	• Upgrading of tarred streets and roads.
Blue Crane Route	• Roads and Storm Water drainage.

2.5 WASTE MANAGEMENT

The collection of households and business refuse is collected in all three towns (i.e. Cookhouse, Somerset East and Pearston), according to the set schedule. This type of waste is collected at least once a week in residential areas and twice for businesses. The rest of the remaining days in that week is used to collect garden refuse.

Under normal circumstances garden refuse should be collected once a week, but due to machinery challenges it gets done at least once a month. This service is offered to all urban areas of Blue Crane Route Municipality. The Municipality purchased a TLB machine, which assists a lot in the collection of garden waste especially in former black dominated areas as their waste is combined with soil and building rubble.

In an attempt to combat illegal dumping, the Municipality embarks on clean-up campaigns that involve members of the community. They assist with the collection and litter, they move refuse to specific corners where municipal trucks are able to pick up with ease.

Challenges in Waste Management:

- A number of households have increased, resulting in more volume of waste generated, but the collection teams remain the same. This is one of the reasons why the collection cannot be managed weekly.
- Some of the employees of waste collection are attending ABET classes and that causes shortages of manpower.
- The Municipality does not have any programs that encourage the community to separate waste, a source for the purposes of refusing and recycling.
- The recycling that is taking place at the landfill is done by a private contractor supported by the Municipality. The Municipality allows the private company to recycle on the site so that volumes of waste going into the trenches can be reduced, subsequently improving the airspace. So far, progress in this regard is very slow.
- The three landfill sites are not operating and managed according to the minimum requirements and Waste Management Act. The biggest problem that the Municipality is having is permitting these sites, ensuring proper management and its funding.
- The irregular collection of garden refuse has resulted in illegal dumping taking place all over the area. Waste is also dumped along the way to landfill site by those that can afford to transport their own waste.
- The dumping of waste by private people at landfill sites is free and the Municipality is losing revenue that could sustain waste management activities.

Remedial action:

- Increase the collection team so that they can be able to manage it weekly.
- The Municipality should develop a recycling program.
- There are a number of illegal re-claimers at landfill sites who can be organised to do recycling in legal ways.
- The application for the closer, rehabilitation and establishment of a new landfill site and transfer station has already been submitted for MIG funding.

Parks, Open Spaces, Nature Reserves and Cemeteries

Parks, open spaces, nature reserves and cemeteries are maintained on a regular basis. The biggest are the trees that have over the years, grown so big that their roots are damaging private properties. A number of claims have already been received by the Municipality. These trees were either planted by the Municipality on pavements or inside the yards that are privately owned. The Municipality does not have capacity in terms of resources and competent staff to address this challenge.

Cemeteries

The shortage of burial space is a major challenge. Land has already been identified in Aeroville to address this challenge. All necessary geotechnical and environmental impact studies have been done and the design, layout and survey concluded.

What is left is the implementation of all establishments of the new cemeteries, which

is still delayed by unavailability of funds. The Municipality does not have caretakers at the cemeteries and that on its own poses a challenge, because gates are left unattended.

2.6 HOUSING AND TOWN PLANNING

a. Housing and Town Planning service delivery strategy and main role-players

The main role players regarding housing within the Municipality comprises of the Municipality itself whose role is limited to making available the necessary land, undertake waiting lists and beneficiary administration and fulfil a limited role with regard to quality control. The Department of Housing – Province of the Eastern Cape is the developer and is appointing contractors to construct houses, as the Municipality has no capacity to manage housing projects.

The Municipality has no town planners and this service is therefore outsourced. The Department of Housing further assists the Municipality, by appointing service providers to undertake planning, surveying and installation of services.

b. Level and standards in Housing and Town Planning Services

Housing Act, 1997, requires that the Minister of Housing determine, among other things, national norms and standards for housing development. The rationale for the provision in the Act relates to the fact that in many situations, the housing subsidy had been absorbed by unaffordable and unsustainable levels of municipal services.

The norms and standards define two things:

- Municipal services to be subsidised by the housing subsidy. The focus here is on the types of basic internal reticulation services that can be subsidised with the portion of subsidy earmarked for internal infrastructure, rather than the specific levels of basic services.
- Minimum size of top structure as well as specific standards for its construction.

If a project is awarded, the maximum 15% variation of the full subsidy amount to cater for abnormal development costs arising from location, geotechnical and topographical conditions, this may be applied to either the municipal services or a combination of the services and the top-structure component of the development.

Guidelines for housing construction and engineering standards are found in three different sources:

- The NHBRC Technical Requirements, published in the NHBRC's Home Building Manual, set design and construction standards for NHBRC registered builders to follow. The Manual also provides guidelines to assist in achieving good quality construction and performance on site.
- The National Building Regulations relating to Health and Safety Standards, as set out in the National Building Regulations and Building Standards Act, 1977 (Act No 103 of 1977).
- The Guidelines for Engineering Services and Amenities in Residential Township Development (commonly called the *Red Book*) provides information and guidance on the various options available to planners and developers in developing residential towns. The long name of the '*Red Book*' is '*Guidelines for Human Settlement Planning and Design*'. The new '*Red Book*' covers essentially the same material as its predecessors, **but is categorised in the following manner:**
    - Planning method and participation.
    - A philosophical approach to settlement making.
    - Guidelines relating to settlement making.
    - Planning guidelines.
    - Storm water management.
    - Roads: Geometric design and layout planning.
    - Roads: Materials and construction.
    - Water supply.
    - Sanitation.
    - Solid waste management; and
    - Energy.

c. Annual performance as per key performance indicators in Housing and Town Planning Services

	Indicator name	Total number of households/ customers expected to benefit	Estimated backlogs (actual numbers)	Target set for the Financial Year under review	Number of households/ customers reached	Percentage of achievement during the year
1	Percentage of households living in informal settlements	800	800	600	600 Chris Hani + Old Location	83%
2	Percentage of informal settlements that have been provided with basic services	80%	20%	60%	400	80%
3	Percentage of households in formal housing that conforms to the minimum building standards for residential houses	80%	20%	60%	40%	80%

d. Major challenges in Housing and Town Planning Services and remedial actions

Challenges

Challenges facing housing delivery within the Blue Crane Route Municipal area are as follows:

- There is insufficient institutional capacity.
- There are massive infrastructure backlogs.
- There is an elevated backlog on housing delivery.
- Housing delivery is progressing very slowly; and
- Some contractors are not keeping to specifications.

Remedial action

The establishment of a Housing Unit with the required technical expertise can go a long way in addressing the challenges raised in the above, provided that the Department of Housing provide the necessary funding in this regard.

2.7 SPATIAL PLANNING

a. Preparation and approval process of Spatial Development Framework

The Municipality, assisted by Urban Dynamics, has developed a Spatial Development Framework (SDF) that is about to be reviewed with the assistance of the Cacadu District Municipality.

The SDF forms a legally binding component of the Municipality's Integrated Development Plan and is a refinement of the broad spatial framework guidelines contained in the IDP. The main aim of the Spatial Development Framework is to formulate spatially based policy guidelines whereby changes, needs and growth in the region can be managed to the benefit of the community. The Spatial Development Framework further guides and informs all decisions of the Municipality relating to use, development and planning of land. This is balanced with the need to provide adequately for the social and economic needs of the growing population. In particular, it identifies opportunities for further development and conservation and makes recommendations as to where, and how, development or conservation

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should take place. In doing so, the framework does not make detailed proposals for specific land portions, but rather provides broad spatial guidelines to assist decision making with regard to land use/spatial planning.

b. Land Use Management

The following applications have been received and approved by Council during the year under review:

Rezoning	- 17
Sub-division	- 4
Consent use	- 0
Removal of restrictive conditions	- 0
Township establishment	- 0

c. Major challenges in Spatial Planning Services and remedial actions

The Municipality does not have a Town Planning Unit and is therefore outsourcing this function. The Municipality is working closely with the Cacadu District Municipality who is most willing to assist when it comes to spatial planning services. The Municipality is also aware of experts in the field of spatial planning, employed by the Development Bank of Southern Africa. Attempts have been made to have some of them deployed to the Blue Crane Route Municipality.

2.8 OVERALL SERVICE DELIVERY BACKLOGS

Basic service delivery area	30 June 2010			30 June 2011		
Water backlogs (6KL/month)	**Required**	**Budgeted**	**Actual**	**Required**	**Budgeted**	**Actual**
Backlogs to be eliminated (no. households not receiving the minimum standard service)	0	0	0	0	0	
Backlogs to be eliminated (% total households identified as backlog/ total number of households in the Municipality)	0	0	0	0	0	
Spending on new infrastructure to eliminate backlogs (R000)	18 000 000	881000	882000	R95 million	R 26.5 million	
Spending on renewal of existing infrastructure to eliminate backlog (R000)	Refer to infrastructural backlog study					
Total spending to eliminate backlogs (R000)						
Spending on maintenance to ensure no new backlogs (R000)	Refer to maintenance backlog study					

Basic service delivery area	30 June 2010			30 June 2011		
Electricity backlogs (30KWH/month)	Required	Budgeted	Actual	Required	Budgeted	Actual
Backlogs to be eliminated (no. households not receiving the minimum standard service)	6	6	6	6	6	6
Backlogs to be eliminated (% total households identified as backlog/ total number of households in the Municipality)	0	0	0	0	0	0
Spending on new infrastructure to eliminate backlogs (R000)	R5 million	R5 million		R5 million	R5 million	
Spending on renewal of existing infrastructure to eliminate backlog (R000)	Refer to infrastructural backlog study					
Total spending to eliminate backlogs (R000)						
Spending on maintenance to ensure no new backlogs (R000)						

Sanitation backlogs	Required	Budgeted	Actual	Required	Budgeted	Actual
Backlogs to be eliminated (no. households not receiving the minimum standard service)	13	13	13	13	13	13
Backlogs to be eliminated (% total households identified as backlog/ total number of households in the Municipality)	5%	5%	5%	5%	5%	5%
Spending on new infrastructure to eliminate backlogs (R000)	R4 million	R13.1 million	R13.1 million	R13.1 million	R13.1 million	R56 million
Spending on renewal of existing infrastructure to eliminate backlog (R000)	Refer to infrastructural backlog study					
Total spending to eliminate backlogs (R000)						
Spending on maintenance to ensure no new backlogs (R000)	Refer to infrastructural backlog study					

Road Maintenance backlogs	Required	Budgeted	Actual	Required	Budgeted	Actual
Backlogs to be eliminated (no. households not receiving the minimum standard service)	0	0	0	0	0	0

Basic service delivery area	30 June 2010			30 June 2011		
Road Maintenance backlogs	Required	Budgeted	Actual	Required	Budgeted	Actual
Backlogs to be eliminated (% total households identified as backlog/ total number of households in the Municipality	0	0	0	0	0	0
Spending on new infrastructure to eliminate backlogs (R000)	R6.8 million	R6.8 million	R6.8 million	R5 million	R12 million	R34.4 million
Spending on renewal of existing infrastructure to eliminate backlog (R000)	Refer to infrastructural backlog study					
Total spending to eliminate backlogs (R000)						
Spending on maintenance to ensure no new backlogs (R000)	Refer to maintenance backlog study					

CHAPTER 3: MUNICIPAL LOCAL ECONOMIC DEVELOPMENT FRAMEWORK

3.1 LOCAL ECONOMIC DEVELOPMENT STRATEGY

Blue Crane Development Agency

INTRODUCTION

The Blue Crane Route Municipality (BCRM) is situated in the western region of the Eastern Cape Province. The western region (Cacadu Regional District) consists of nine local municipalities, of which the Blue Crane Route is the largest in size. The BCRM is a municipality established in terms of the Demarcation Act of 2000 and incorporates the previous municipalities of Somerset East (municipal seat of the BCRM), Cookhouse and Pearston. The BCRM covers an area of approximately 9914 square kilometres and is geographically the largest municipality in the Cacadu District. The municipal area is inhabited by + 46 000 people.

The Industrial Development Corporation (IDC) commenced with the establishment of development agencies in 2001 after being requested by the government to create local development agencies to assist the current municipal Local Economic Development function with identifying/ implementing larger projects that could in reality have a major positive impact on the local economies of municipalities.

In July 2003, the BCRM applied to the IDC for the establishment of a local development agency in terms of a resolution taken by the BCRM. The application was approved in February 2004 and the Blue Crane Development Agency (BCDA) came into being as the development arm of the Municipality. The BCDA is currently in the last of the three implementation phases.

The BCDA drafted an Integrated Development Plan (IDP) to put the BCRM on a developmental and employment absorbing growth path, for the long-term. The competitive positioning of the area and the many favourable conditions offered is underlined in the IDP and stands as a challenge to the BCDA to fulfil its mandate of development.

This all inclusive document strives to identify the different developmental sectors for the area as well as the potentially viable projects for each of the developmental sectors e.g. Tourism, Business, Aviation, Renewable Energy, Social, Education, and Agriculture. Key development projects were identified, and prioritised, according to impact on expansion of the local economy as well as job creation.

These projects are all registered in the Municipality's Integrated Development Plan and are also aligned with district/ provincial and national government policies.

The agency fulfils the role as the development arm of the BCRM. The agency is a legal entity that can operate independently, to fulfil its mandate.

MANAGEMENT/ ADMINISTRATION

The Board fulfil the following roles:

Non-executive Function: (BCDA Board of five members)

- Regulatory role concerning the MFMA, Municipal Systems Act and Occupational Health and Safety Act.
- Adaption of :

- Policies
- Strategic plans (IMDP/ Marketing and Communication Plan)
- Operational performance
- Ensuring the integrity of the BCDA's risk management and internal controls.
  (Appointed for three years/ Appoint a chairperson)

The Management team fulfil the following roles:

Executive Function: (CEO/Managers/Staff)

- Staff Function
- Administration and corporate management
- Marketing/ Planning and Tourism function management
- Financial management
- Day to day management of administrative matters
- Line Function
- Management of core development sectors (Agriculture/ Tourism and Business)

Financial Officer (FO)

The FO of the BCDA is Mr. Conrad Everson. The FO's responsibility revolves around the following aspects of the MFMA and MFSA:

1. Institution and management of the Financial Policy and Procedures
2. Institution and revision of the Risk Management Policy
3. Revision and management of the Service Provider list
4. Revision and management of the Procurement System (Tender Policies/ Disposal/ Logistic Management/ Asset Management)
5. Safeguarding and Maintenance Plan
6. Financial applications of the BCDA

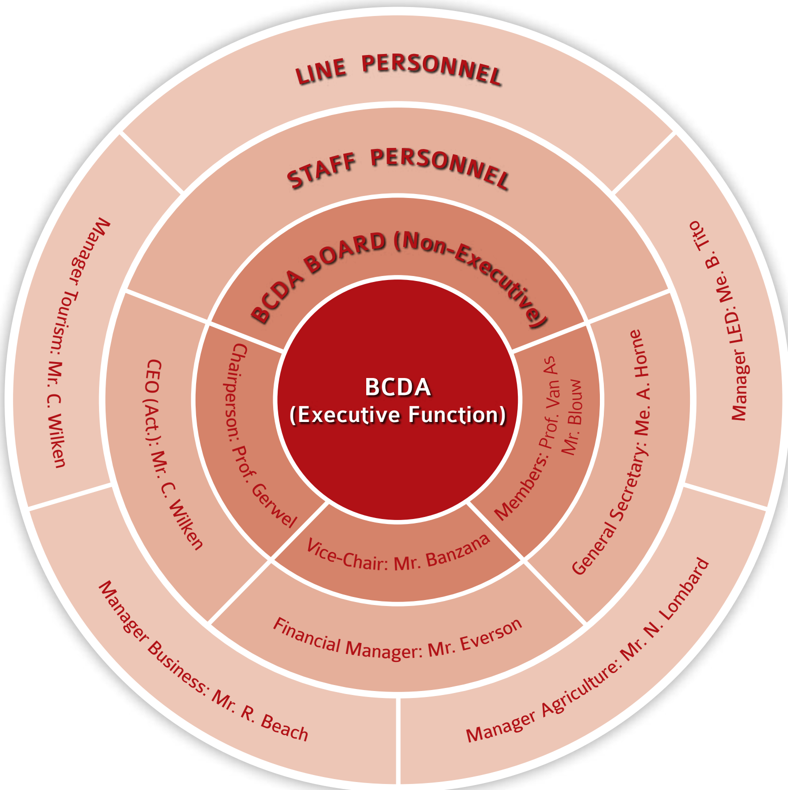
General Administration/Legal

The BCDA's secretary is Me. Anneline Horn whose responsibility and duties include:

1. General administration and filing
2. Meeting organising and minute drafting

ORGANOGRAM

Management changed when the CEO, Mr. Zola Tesana resigned in January 2010. The board decided not to appoint another CEO, but appointed one of the managers (Mr. Wilken) as acting CEO.



PROJECT SECTORS

Tourism

Over the past decade the desire to participate in, and observe, nature and cultures in authentic settings has created a marketplace for tourism services in the most remote places on the globe. The interest in these encounters is manifested in the notion that the product is the experience and unlocking the value of the wealth of these experiences in the Somerset East area has now become a priority.

The research among product owners and tour operators has enabled the study to string together several emerging trends in the hinterland of the Eastern Cape. These trends are based on the type of experience sought by tourists in the more rural areas of the Eastern Cape Province. The study has differentiated between foreign and domestic tourist trends.

The following trends are relevant to foreign tourists visiting the hinterland/midlands of the Eastern Cape:

- Prefer environment and landscape in rural areas with open spaces;
- Experience customs and lifestyles of different cultural groups;
- Local historic sites and battlefields interest the traveller fascinated by historical events;
- Accommodation should be either very luxurious or very primitive (as part of the African experience);
- Preference is shown for outdoor activities such as:
  - Hiking/Walking trails
  - Wildlife viewing
  - 4x4 routes
  - Birding
  - Informal accommodation
  - Horseback riding.

Local tourists who frequent the hinterland areas of the Eastern Cape are from the LSM 6-10 grouping and indicate a preference for the following:

1. More comfort-orientated, keen on luxury, visiting with friends or family and relaxation;
2. Will participate in sport (tennis, golf) and spoil themselves at a spa, rather than participate in outdoor activities;
3. Black middleclass have a preference for evening entertainment, nightlife and restaurants with limited outdoor activities;
4. Increase in visitors to the area that originate from metropolitan areas such as Bloemfontein, East London, Port Elizabeth and Gauteng, as well as from the Southern Cape;
5. Prefers relaxation and holiday activities such as:

- Family entertainment;
- Golf, tennis, swimming, hydro and wellness centres;
- Equestrian centre;
- More formal accommodation;
- Hotels/chalets;
- Organised resort activities;
- Water sport activities;
- Restaurants; and
- 4x4 routes.

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Agriculture

General

The Blue Crane Development Agency was mandated to investigate the potential to produce high value crops. The area is known for its well established extensive agricultural potential. The reason for high value crops is to create employment and to add value to produce and to establish industries. Since 2004, various studies have been conducted on this.

From these studies it was clear that a wide range of crops could be established and that the water is of good quality and more than sufficient to grow these crops. The water comes from the Gariep Dam and since 1974 there is permanent water available for irrigation purposes. The studies also confirmed that the soils are of exceptional good quality and lends itself to all the different crops. Research was done on the climate over the past 20 years and it is also clear that the climate suits all the crops; because of the climate fruit ripens 10-14 days earlier in our region than in any other area.

By implementing the production of high value crops the economy will be stimulated, employment will be created and the high jobless problem will be addressed. Value can be added to produce, which will create industries, skills will be developed and the entire community will be uplifted.

Studies were conducted on the following crops:

Flowers: Farming with flowers is very intensive and a lot of skills are required. It is not suitable for upcoming farmers. Commercial farmers in our area are not interested due to the risk and the intensity of such an operation. What was interesting from the study was that a market for flowers was created due to the availability of the flowers. There is a growing demand for flowers locally and in Port Elizabeth. The implementation of flower farming is very expensive, but creates a lot of employment.

Business

Location

The Blue Crane Route Municipality is located in the western half of the Eastern Cape, approximately 180 km north of the Nelson Mandela Metro. The area comprises of the former Municipal and Transitional Representative Area of Somerset East, Pearston and Cookhouse and a portion of the former Bedford TRC Area. This Municipality falls within the Cacadu regional municipality's jurisdiction.

Problem vs. Opportunity Statement

The absence of enabling infrastructure was one of the problems identified by the BCDA and thus this project was earmarked as a crucial infrastructure development project and reflected as such in the Integrated Master Development Plan of the BCDA. The prevailing challenge is a main runway that is 65% completed with the funds having been exhausted versus the economic and social opportunities and benefits that will be unlocked once the runway is completed.

The following components were completed by the end of 2007 within the initial funding grant budget:

- An electrified perimeter security fence;
- Two aircraft hangars;
- The terminal buildings;
- Two grass runways have been completed and are operational;
- Bulk services; and
- 65% of new main runway.

This catalytic infrastructure project will be a crucial anchor and hub to facilitate and enable sustainable economic and social development within the BCRM municipal precinct. This development is intended to stimulate the regional economy, with all the linked downstream aviation projects and other opportunities that will be enabled by the airport and thus create jobs and alleviate the poverty, which is so prevalent in the region.

This project is directly linked to the macro R1 billion Boschberg Development node being developed by the BCDA and as a collective these projects should create in excess of two thousand jobs in the medium-term. This project includes three new housing nodes, a boutique hotel, wellness centre, a golf course upgrade and a host of outdoor adventure activities designed to attract tourists to the region.

A number of major events are held in Somerset East every year for which the airport is required and they include inter-alia the Trout Fishing Festival, corporate clinics, Bell's novice day, Hobson's Choice, Stealth Tackle Festival, Mac Nab Competition, Biltong Festival, Bruitjies Hoogte Cycle Race, Bruitjies Hoogte Marathon, hunting and game viewing safaris, bird watching, etc. throughout the year. This airport will likewise provide the northern gate of the Addo Park with a closer and alternative air based gateway.

The BCRM does not have the financial capacity to finish the construction of the runway or to service a loan for the same and hence grant funding is the only option for project completion. The project is included in the IDP of the BCRM.

A number of aviation related projects are also linked to the new airport development including inter-alia:

1) **Relocation of Albasera Aircraft Light Sport Aircraft manufacturer:**
   The BCDA has successfully negotiated with Albasera Aircraft from Johannesburg for this company to relocate their Light Sport Aircraft Manufacturing business to the new airport at Somerset East. The lease agreement has been signed and the relocation has commenced and is expected to be completed in June 2010.

2) The Aeronautical Faculty of Wits University (Wits Enterprise) has designed the first production built South African Light Sport Aircraft. The design was completed in October 2008 and commercial production of this aircraft is planned at the new Somerset East airport.

3) Air charter and safari operators, operating out of the new airport will accommodate the needs of air travel tourists to and from the region.

4) The BCDA has facilitated the establishment of a flying school at Gill College/ other schools in BCRM region to enable the schools to offer pilot training to learners as an extra curriculum subject. The Club is open to learners from all the secondary schools within the BCRM precinct. The BCDA is hoping to establish a facility by way of a pilot training bursary scheme for previously disadvantaged individuals.

The long-term sustainable impact on the regional economy is expected to be exponential. Similar examples have proven to have a comparable effect as can be seen at the Lanseria and Nelspruit Airports for example.

This project will most certainly accelerate the achievement of key economic IDP development objectives in the region.

Renewable Energy

Due to the shortage and unavailability of electricity, the BCDA was mandated and tasked by its parent municipality, the Blue Crane Route Municipality, to investigate and explore options on renewable energy. A study was done by the University of Stellenbosch (Centre for Renewable Energy) on all the options and available sites in the area.

Project 1: Hydro-Electricity Generation

The Fish River and Little Fish River runs through our area. There are several sites that were identified to generate hydro-electricity. Four sites were identified to erect mini hydro-power stations to generate 28 MWA, which can be fed into the grid and solve the shortage. There are also several sites that were earmarked to put up micro hydro's to supply the demand of local farmers. Since November 2006, the BCDA battled to obtain the necessary water user license to implement the building of these facilities. The funding and expertise to erect and manage these power stations are available.

Project 2: Solar Electricity Generation

The BCDA advertised for a call for proposals to generate electricity in the Pearston area and various interested parties responded and will do presentations. Investors from Italy and Germany currently look to establish a solar farm to generate 300 MWA that will create 280 temporary and 100 permanent jobs over a period of three years. The Agency was also tasked by the BCRM to look into the implementation of a solar geyser system for the area. The Agency is currently busy to investigate all the options.

Project 3: Wind Electricity Generation

From the study it was clear that the area has plenty and good quality wind. The necessary test masts were erected and procedures were followed and various companies are now ready to start building the wind generators pending power purchase agreements and appointment as a power producer. The total value of these projects amount to R18 billion. The challenge is however to manage the process in such a way that the environment is not negatively influenced.

Project 4: Establishing a Skills Development Centre

The Agency received a proposal from the University of Stellenbosch on a 1 MWA wind farm, which will in the short-term solve local electricity shortage and also serve as a centre for research and training and skills development. This will be a first for South Africa.

The Electrical Machine Laboratory (EMLab) of the Department of Electrical and Electronic Engineering at the University of Stellenbosch recently made the proposal to the University for the development of a 1 MW wind farm consisting of 20 x 50 kW wind turbines. The wind farm is divided into groups of different wind generator technologies and systems. It is proposed that the wind farm has a central control unit and also a training centre for children, technicians and engineers. Initially, however, the main focus is on research.

3.2 ANNUAL PERFORMANCE

Blue Crane Development Agency – Performance Management Evaluation July 2011				
SECTOR/ DEPARTMENT	Key Performance Indicator	Development Priority: Reason for 'id'	Performance	Points
A) STAFF FUNCTIONS				
ACCOUNTING DEPARTMENT: Responsibility: (Mr. Conrad EVERSON)				
General Accountancy	1- Management of Tender Processes	As per Legislation	Work in progress	5
	2- Management of Accounting and Bookkeeping Processes	As per Legislation	All processes implemented	4
	3- Management of Tax Requirements	As per Legislation	All processes implemented	5
	4- Management of Payment and Purchasing Processes	As per Legislation	Payment processes to be implemented	5
	5- Management of Inventory Processes	As per Legislation	Bar coding	4
	6- Management of Budgeting Processes	As per Legislation	Times submitted	4
	7- Management of Financial Reporting Processes	As per Legislation	Waiting for audit findings	4
New Projects to be Implemented	1- Development and Establishment of an Inventory System	As per Legislation	Implemented	5
	2- Development of Several Policies (Internal)	As per internal agreement	Completed	4
	3- Development of Several Policies (External)	As per Legislation, and 2007/08 Audit Report	Waiting for BCRM adaptation	3
	4- Incorporation of the BCDA Financial System into that of the BCRM	As per Legislation	Work in progress	4
The BCDA administration has implemented the majority of the requirements as highlighted by the last year's Audit Reports.				

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SECTOR/ DEPARTMENT	Key Performance Indicator	Development Priority: Reason for 'id'	Performance	Points
ADMINISTRATIVE DEPARTMENT: Responsibility: (Me. Anneline HORN)				
General Administration	1- Management of General Reception	As per appointment	Not professional enough	3
	2- Management of the Filing System	As per appointment	Implemented	5
	3- Management of Reporting Systems (Excluding Financial)	As per appointment	Monthly reports not always on time	4
	4- Management of the Booking and Reservation Processes	As per appointment	Very well managed	5
	5- Management of the Meeting System	As per appointment	Well managed	5
	6- Management of the Petty Cash	As per appointment	Very well managed	5
	7- Management of the Assistant Workers and their Administration	As per appointment	Well managed	5
	8- Management of the Service Provider System	As per appointment	System in place	4
New Projects to be Implemented	1- To revamp the Current Filing System	As per internal agreement	System implemented	5
The Secretary has managed to implement all the necessary systems, as required. The BCDA reception and administration is on a fairly good level.				
MARKETING/ COMMUNICATION: Responsibility: (Mr. Chris WILKEN)				
Marketing/ Communication	1- Marketing of Agency (Not project specific)	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	Website: Design and operational. Monthly newspaper reports Investors Conference not done	3
	2- Draft and implement a Communication Plan	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	Plan not updated as yet	2
The marketing function of BCDA has decreased due to a lack of budget.				

SECTOR/ DEPARTMENT	Key Performance Indicator	Development Priority: Reason for 'id'	Performance	Points
CEO (Acting): Responsibility: (Mr. Chris WILKEN)				
General Responsibility	1- Oversee the management of BCDA Financial Systems	As per Legislation	Weekly reports; Monthly Manager Report; Oversee function of Business Manager and Accountant	4
	2- Oversee the management of BCDA Administrative Systems	As per Legislation	Weekly reports; Monthly Manager Report; Oversee function of Business Manager and Accountant	5
	3- Oversee the management of BCDA Personnel Systems	As per Legislation	Weekly reports; Monthly Manager Report; Oversee function of Business Manager and Accountant	5
New Projects to be Implemented	1- Development and Establishment of a Performance Management System	As per Legislation	Develop a system; Implementation of the system: Quarterly Assessments	5
	2- Updating of the Risk Management System	As per Legislation	Updating current System; Implementation of the system: Quarterly Assessments	5
	3- Management of Staff Development	As per responsibility	Lack of budget to enable implementation	3
The Acting CEO has managed the BCDA affairs fairly well; budget constrains hampers further implementation of projects.				

OVERSIGHT: FINANCIAL: Responsibility: (Mr. Rob BEACH)				
Financial	To oversee and ensure compliance of the Accountant in terms of all Financial Systems as per applicable Legislation	As per Integrated Master Development Plan; As per applicable Legislation; As per Internal Agreement	Asset management 'id' as a short coming	4
The same scenario applies for the financial oversight function as was the case with the Financial Manger, systems are in place to ensure compliance, but these systems are not necessary in line with the requirements as is stated in the applicable Legislation.				

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SECTOR/ DEPARTMENT	Key Performance Indicator	Development Priority: Reason for 'id'	Performance	Points
OVERSIGHT: ADMIN and LEGAL: Responsibility: (Mr. Nico LOMBARD)				
Administration and Legal	To oversee and ensure compliance of the Secretary in terms of all Administrative systems as per applicable Legislation	As per Integrated Master Development Plan; As per applicable Legislation; As per Internal Agreement	Time; Lack of supervision	4
	To ensure that the BCDA operates within the applicable Legal Systems	As per Integrated Master Development Plan; As per applicable Legislation; As per Internal Agreement	Audit indicated certain short-comings, majority implemented	4
The administrative oversight function is also focusing efforts to ensure compliance, which is still not fully in place.				

B) LINE FUNCTIONS				
BUSINESS: Responsibility: (Mr. Rob BEACH)				
B.1.1) Airport Construction (Completion of Main Runway construction)	1- Establishment of municipal steering committee: Quarterly meetings	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	Completed	4
	2- Meeting: Funding Airport: Cacadu	As above	Completed	
	3- Meeting: MEC Transport	As above	Not materialised as yet	
	4- Signing of an agreement with funder	As above	Government have yet to formally commit to funding for the runway. Various alternative funding options explored	
	5- Commence construction	As above	Waiting for above	
B.1.2) Development of the Light Industrial Park	1- Acquisition of a Positive ROD for the development of the Light Industrial Park	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	Done	4
	2- Completion of Final Planning for the Light Industrial Park	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	Done	

SECTOR/ DEPARTMENT	Key Performance Indicator	Development Priority: Reason for 'id'	Performance	Points
B) LINE FUNCTIONS				
BUSINESS: Responsibility: (Mr. Rob BEACH)				
B.1.2) Development of the Light Industrial Park	3- To develop and establish an Investor Investment Plan	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	Done	4
	4- Installation of Bulk Services	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	To commence once funding available	
B.1.3) Design and Commercialisation of a Light Sport Aircraft (SkyWake)	1- Sourcing Funds to manufacture the prototype	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	Work in progress	5
	2- Investor engagement: Fund sourcing for commercial production	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	Work in progress. Various alternative funding options explored	
B.1.4) Relocation of Albasera Aircraft from Johannesburg to Somerset East	1- Procure and sign a lease agreement with Albasera Aircraft	1- Identified as per Integrated Master Development Plan	Done	4
	2- Facilitate the relocation process (Johannesburg to Somerset East)	1- Identified as per Integrated Master Development Plan	Work in progress	
B.1.5) Establishment of a Flying School at Somerset East Airport	1- Develop and manage a call for proposals to attract a flying school for the Airport	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	Done. No response. Currently engaging potential service providers. Various alternative funding options explored	4
	2- Appointment of a preferred service provider to establish a flying school	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	Currently engaging potential service providers	
	3- Draft and sign a lease agreement with the preferred service provider	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	Currently engaging potential service providers	
This section has had tremendous success in moving the majority of the projects towards implementation.				

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SECTOR/ DEPARTMENT	Key Performance Indicator	Development Priority: Reason for 'id'	Performance	Points
		TOURISM: Responsibility: (Mr. Chris WILKEN)		
T.1) Development of the Boschberg Country Estate	1- Sourcing of a loan to develop the project (Option: Pre-sale driven)	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	1- Implementation plan drafted; 2-Plan submitted to possible funders; still waiting	4
	2- Finalising the ROD requirements	As required by the Record of Decision received from DEDEA	All completed	5
	3- Additional matters to be finalised	As required by the Record of Decision received from DEDEA	All completed except the issue relating to BCRM	
	4- Tourism Hub Node Development	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	1- Plan drafted 2- Plan submitted to possible funders 3-Implementation	5
	5- Complete and Establish a Marketing Plan for the project	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	Plan completed and ready for implementation	5
	6- PPP Process to enable Concession Development	As per development model	Concession registered and in concessionaire signed	5
B.1.5) Establishment of a Flying School at Somerset East Airport	1- Develop and manage a call for proposals to attract a flying school for the Airport	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	Done. No response. Currently engaging potential service providers. Various alternative funding options explored	4
	2- Appointment of a preferred service provider to establish a flying school	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	Currently engaging potential service providers	
	3- Draft and sign a lease agreement with the preferred service provider	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	Currently engaging potential service providers	
	This section has moved towards implementation in a responsible manner taking into account the current market situation. New implementation plans had to be developed and instituted. Implementation of project commenced.			

SECTOR/ DEPARTMENT	Key Performance Indicator	Development Priority: Reason for 'id'	Performance	Points
AGRICULTURE: Responsibility: (Mr. Nico LOMBARD)				
A.1.1) Pomegranate Production	1- Expansion of current operations to 300 ha in the BCRM district	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	Fund sourcing. Waiting for commercial take up	5
A.1.2) Deciduous Fruit Production	1- Expansion of local deciduous fruit industry	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	Fund sourcing. Waiting for commercial take up	4
A.1.3) Fig Production	1- Establishment of a Fig Industry in the BCRM district	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	Still to establish pilot project	4
A.1.4) Prickle Pear Production	1- Establishment of a Prickly Pear Industry in the BCRM district	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	Still to establish pilot project	4
A.1.5) Facilitation of Tomato project	Facilitating opportunities	As agreed with IDC	Final negotiations succeeded	5
A.1.6) Facilitation of Carbon Project	Facilitating opportunities	As agreed with IDC	Project established. Project expanded	5
A.3) Misty Mountains Project	1- Replanning and commercialisation of the Misty Mountains Project	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	Work in progress, no funding	2
The agricultural section has progressed well with several projects implemented. Commercialisation of Misty Mountains Project is still a problem with no commercial partners available to ensure implementation progress.				

GENERAL PROJECTS: ALTERNATIVE ENERGY PROJECT: Responsibility: (Mr. Nico Lombard and Steering Committee)				
A.1.1) Hydro-Energy Generation	1- To facilitate the planning and construction of a Hydro/Hydro's in the BCRM district	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	To be implemented	4
A.1.2) Wind Energy Generation	1- To facilitate the planning and construction of Wind generators in the BCRM district	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	To be implemented	4

Continue on next page

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GENERAL PROJECTS: ALTERNATIVE ENERGY PROJECT: Responsibility: (Mr. Nico Lombard and Steering Committee)				
A.1.3) Solar Energy Generation	1- To facilitate the planning and construction of Wind Generators in the BCRM district	1- As per Integrated Master Development Plan 2- As agreed with IDC (Budgeted 2010)	In process of signing final concession documents	4
A.1.4) Renewable Energy Centre	1- To facilitate the planning and establishment of a Renewable Energy Centre in BCRM	As agreed with IDC	Fund sourcing	4
Most projects are ready for implementation.				

GENERAL PROJECTS:				
Establishment of an Educational Centre of Excellence (ECOE) RESPONSIBILITY: Mr. Rob Beach: (Steering Committee)				
2.1) ECOE	1- Maths and Science incubator	As agreed with IDC	Functioning very well	5
	2- STEM Laboratory	As agreed with IDC	Business plan received, in fund sourcing process	3
	3- Design laboratory	As agreed with IDC	In planning process	3
	4- NAC (Satellite)	As agreed with IDC	BCDA appointed	5
ECOE	1- Sport Academy			
	2- Cultural Academy			
These very important projects are very well received by the government authorities and are functioning very well.				

OTHER GENERAL PROJECTS				
2.2) Somerset East/Cookhouse	1- To develop waste recycling SMME businesses for the year 2010	As per Integrated Master Development Plan	ROD received, business implemented	5
2.3) Somerset East	1- To assist with the development of a Shopping Centre in Somerset East	As per Integrated Master Development Plan	New procurement process in progress	4
These projects are implemented.				

C J Wilken (Mr)
ACTING CEO: BCDA

CHAPTER 4: MUNICIPAL FINANCIAL VIABILITY AND MANAGEMENT

4.1 THE AUDITED FINANCIAL STATEMENTS

GENERAL INFORMATION

Mayoral committee

EXECUTIVE MAYOR	NM Scott
COUNCILLORS	BA Manxoweni KC Brown CF Du Preez WH Greeff N Mjikelo RM Bradfield NP Yantolo MK Mali M Nontyi Z Funselo
ACCOUNTING OFFICER	MA Mene
CHIEF FINANCE OFFICER (CFO)	DR Sauls
REGISTERED OFFICE	67 Nojoli Street Somerset East 5850
POSTAL ADDRESS	P.O. Box 21 Somerset East 5850
AUDITORS	Auditor-General

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INDEX

The reports and statements set out below comprises the consolidated annual financial statements presented to the provincial legislature:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

I am responsible for the preparation of these consolidated annual financial statements, which are set out on pages 47 to 121, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 32 of these consolidated annual financial statements are within the upper limit of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

ACCOUNTING OFFICER
Mr. M. A. Mene

30 September 2011

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Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Other financial assets	8	2 716	82 404
Inventories	11	2 998 887	994 664
Other receivables from exchange transactions	12	441 501	571 272
Other receivables from non-exchange transactions	13	4 058 636	1 020 314
Trade receivables from exchange transactions	14	8 777 571	9 891 875
Cash and cash equivalents	15	23 654 605	21 585 571
		39 933 916	**34 146 100**
Non-Current Assets			
Investment property	4	1	1
Property, plant and equipment	5	51 128 422	30 977 666
Intangible assets	6	4 536	4 536
Investments in controlled entities	7	-	-
Other financial assets	8	23 692	121 102
		51 156 651	**31 103 305**
Total Assets		**91 090 567**	**65 249 405**
Liabilities			
Current Liabilities			
Employee benefit obligation	10	365 377	353 503
Other financial liabilities	16	175 141	-
Finance lease obligation	17	761 087	752 384
Unspent conditional grants and receipts	18	3 538 861	7 551 705
Provisions	19	768 303	978 316
Trade and other payables from exchange transactions	20	13 739 011	9 335 145
Trade and other payables from non-exchange	21	113 831	-
VAT payable	22	676 135	496 438
Consumer deposits	23	1 583 790	1 349 551
		21 721 536	**20 817 042**
Non-Current Liabilities			
Employee benefit obligation	10	13 416 645	14 290 519
Other financial liabilities	16	637 372	-
Finance lease obligation	17	1 103 881	1 785 336
		15 157 898	**16 075 855**
Total Liabilities		**36 879 434**	**36 892 897**
Net Assets		**54 211 133**	**28 356 508**
Net Assets			
Accumulated surplus		54 211 133	28 356 508

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue			
Administration and management fees received		357 938	9 683
Fees earned		252 529	251 698
Fines		92 186	59 588
General		812 089	1 312 484
Government grants and subsidies	28	61 870 531	50 771 578
Income from agency services		737 193	575 285
Interest received (trading)		2 480 035	2 265 366
Interest received - investment	34	1 704 708	1 091 759
Licences and permits		1 156 753	1 206 432
Miscellaneous other revenue		1 283	-
Other income	29	898 939	1 806 901
Private work		1 285 774	4 411 201
Property rates	26	5 943 263	4 903 794
Rental of facilities and equipment		84 248	58 882
Service charges	27	71 231 600	62 555 347
Total Revenue		**148 909 069**	**131 279 998**
Expenditure			
Bulk purchases	37	(32 922 010)	(26 975 548)
Collection costs		(2 194)	(2 542)
Debt impairment	33	(10 482 185)	(6 275 232)
Depreciation and amortisation		(29 320)	(36 653)
Employee related costs	31	(45 391 778)	(40 550 570)
Finance costs	35	(2 126 885)	(1 942 884)
General Expenses	30	(29 428 346)	(26 397 757)
Remuneration of councillors	32	(2 191 350)	(2 367 701)
Repairs and maintenance		(2 920 377)	(4 011 540)
Total Expenditure		**(125 494 445)**	**(108 560 427)**
Gain on disposal of assets and liabilities		-	492 362
Actuarial gain/(loss)		2 440 000	-
Surplus for the year		**25 854 624**	**23 211 933**

Tolerance
Trust
Tenacity

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	3 153 482	3 153 482
Adjustments		
Prior year error (BCDA)	1 819 432	1 819 432
Asset take on - Infrastructure and investment property @ R1 per asset	15 936	15 936
Prior year adjustments 2009	155 725	155 725
Balance at 01 July 2009 as restated	**5 144 575**	**5 144 575**
Changes in net assets		
Surplus for the year	23 211 933	23 211 933
Total changes	23 211 933	23 211 933
Opening balance as previously reported	27 687 581	27 687 581
Adjustments		
Asset take on affecting net assets	15 937	15 937
Prior year adjustments (BCDA)	764 499	764 499
Prior year adjustments	(111 508)	(111 508)
Balance at 01 July 2010 as restated	**28 356 509**	**28 356 509**
Changes in net assets		
Surplus for the year	25 854 624	25 854 624
Total changes	25 854 624	25 854 624
Balance at 30 June 2011	**54 211 133**	**54 211 133**
Note(s)	42	

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Grants		57 736 722	50 868 199
Interest income		1 704 708	1 091 759
Other receipts		84 390 046	77 998 412
		143 831 476	129 958 370
Payments			
Employee costs		(48 574 168)	(39 252 754)
Finance costs		(1 820 598)	(1 448 660)
Other payments		(73 638 173)	(63 182 452)
		(124 032 939)	(103 883 866)
Net cash flows from operating activities	38	**19 798 537**	**26 074 504**
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(20 180 076)	(15 917 772)
Gain on disposal of assets and laibilities	5	-	492 362
Purchase of other intangible assets	6	-	(4 535)
Net movement in financial assets		177 098	94 944
Actuarial gain/(loss) - Non cash item		2 440 000	-
Other cash item		-	219 970
Net cash flows from investing activities		**(17 562 978)**	**(15 115 031)**
Cash flows from financing activities			
Repayment of other financial liabilities		812 513	-
Finance lease payments		(979 039)	(906 094)
Net cash flows from financing activities		**(166 526)**	**(906 094)**
Net increase/(decrease) in cash and cash equivalents		**2 069 033**	**10 053 379**
Cash and cash equivalents at the beginning of the year		21 585 571	11 532 192
Cash and cash equivalents at the end of the year	15	**23 654 604**	**21 585 571**

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1. Presentation of Consolidated Annual Financial Statements

The consolidated annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These consolidated annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the consolidated annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the consolidated annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the consolidated annual financial statements. Significant judgements include:

Loans and receivables

The economic entity assesses its loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the economic entity is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the economic entity for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The economic entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including production estimates, supply and demand, together with economic factors such as exchange rates, inflation and interest rates.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of infrastructure and other assets

The economic entity's management determines the estimated useful lives and related depreciation charges for the infrastructure and other assets. This estimate is based on industry norm or technical advice. Management will amend the depreciation charge where there is a change in the estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 10.

Effective interest rate

The economic entity used the most relevant contractual risk rate applicable to each category of assets and liabilities to discount future cash flows. Where none exists the prime interest rate is used to discount future cash flows.

Allowance for impairment on trade and other receivables

On trade and other receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the estimated future cash flows based on the historical payment trend.

Provision to the doubtful debts allowance accounts are caculated based on the average payment percentage as calculated per ward determining the risk in days averaged to 30, 60, 90, 120 days and higher. Provision is then determined per ward based on the ward's risk portfolio.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the economic entity, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.2 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the fair value of investment property under construction is not determinable, it is measured at cost until the earlier of the date it becomes determinable or construction is complete.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Transitional provision

The economic entity changed its accounting policy for investment property in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the economic entity is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts, as disclosed in 4. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where investment property was acquired through a transfer of functions, the economic entity is not required to measure that investment property for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The economic entity acquired a transfer(s) of function in 2011 and investment property has accordingly been recognised at provisional amounts, as disclosed in 4.

Until such time as the measurement period expires and investment property is recognised and measured in accordance with the requirements of the Standard of GRAP on Investment property, the economic entity need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Investment property implies that any associated presentation and disclosure requirements need not be complied with for investment property not measured in accordance with the requirements of the Standard of GRAP on Investment property.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the economic entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.3 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land and buildings wich is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	30
Plant and machinery	3 to 30
Motor vehicles	4 to 15
Office equipment	3 to 5

The residual value, and the useful life and depreciation method of each asset are reviewed annualy. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.3 Property, plant and equipment (continued)

Assets which the economic entity holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Transitional provision

The economic entity changed its accounting policy for property, plant and equipment in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the economic entity is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 5. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the economic entity is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The economic entity acquired a transfer(s) of function in 2011 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 5.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the economic entity need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

1.4 Site restoration and dismantling cost

The economic entity has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which itt is located, the obligation for which an economic entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the economic entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

1.5 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the economic entity or from other rights and obligations.

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.5 Intangible assets (continued)

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the economic entity; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

Blue Crane Route Economic Entity
Consolidated Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.5 Intangible assets (continued)

Transitional provision

The economic entity changed its accounting policy for intangible assets in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the economic entity is not required to measure intangible assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Intangible assets. Intangible Assets has accordingly been recognised at provisional amounts, as disclosed in 6. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 2 of the GRAP Reporting Framework, where intangible assets was acquired through a transfer of functions, the economic entity is not required to measure that intangible assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The economic entity acquired a transfer(s) of function in 2011 and intangible assets has accordingly been recognised at provisional amounts, as disclosed in 6.

Until such time as the measurement period expires and intangible assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the economic entity need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Intangible assets implies that any associated presentation and disclosure requirements need not be complied with for intangible assets not measured in accordance with the requirements of the Standard of GRAP on Intangible assets.

1.6 Investments in controlled entities

Investments in controlled entities are carried at cost less any accumulated impairment.

The cost of an investment in controlled entity is the aggregate of:

- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the economic entity; plus
- any costs directly attributable to the purchase of the controlled entity.

An adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.7 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.7 Financial instruments (continued)

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Trade and other receivables from non-exchange transactions	Financial asset measured at amortised cost
Trade and other receivables from exchange transactions	Financial asset measured at amortised cost
Long term receivables	Financial asset measured at amortised cost
Non current investments	Financial asset measured at amortised cost
Other non current investments (shares)	Financial asset measured at fair value
Other	Financial asset measured at fair value

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Borrowings	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

Blue Crane Route Economic Entity

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Accounting Policies

1.7 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease or the incremental borrowing rate of the municipality.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Blue Crane Route Economic Entity

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Accounting Policies

1.8 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Transitional Provision

The municipality changed its accounting policy for leases in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework
.
According to the transitional provision, the municipality is not required to measure leases for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on leases. . The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where leases was acquired through a transfer of functions, the municipality is not required to measure that inventories for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later
.
Until such time as the measurement period expires and leases is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Inventory GRAP (19),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on leases implies that any associated presentation and disclosure requirements need not be complied with for leases not measured in accordance with the requirements of the Standard of GRAP on leases.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the economic entity incurs to acquire the asset on the reporting date.

Blue Crane Route Economic Entity

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Accounting Policies

1.9 Inventories (continued)

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the economic entity.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Transitional provision

The economic entity changed its accounting policy for inventories in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the economic entity is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Inventories. Inventories has accordingly been recognised at provisional amounts, as disclosed in 11. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where inventories was acquired through a transfer of functions, the economic entity is not required to measure that inventories for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The economic entity acquired a transfer(s) of function in 2011 and inventories has accordingly been recognised at provisional amounts, as disclosed in 11.

Until such time as the measurement period expires and inventories is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the economic entity need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Inventories implies that any associated presentation and disclosure requirements need not be complied with for inventories not measured in accordance with the requirements of the Standard of GRAP on Inventories.

1.10 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

Blue Crane Route Economic Entity

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Accounting Policies

1.11 Impairment of cash-generating assets

Cash-generating assets are those assets held by the economic entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the economic entity; or
- the number of production or similar units expected to be obtained from the asset by the economic entity.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The economic entity assesses annually whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the economic entity estimates the recoverable amount of the asset.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the economic entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the economic entity applies the appropriate discount rate to those future cash flows.

Blue Crane Route Economic Entity
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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the economic entity determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the economic entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:
- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Blue Crane Route Economic Entity

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.12 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the economic entity; or
- the number of production or similar units expected to be obtained from the asset by the economic entity.

At each reporting date a review is carried out to determine whether there are any indications that any assets or cash generating units may be impaired. If such indications exist, the recoverable amounts of the affected assets are determined.

Where the recoverable amount of an assset or cash-generating unit is lower than its carrying amount, an impairment loss is recognised in profit for the period in respect of assets carried at historic cost , and against revaluation surpluses in respect of assets carried at revalued amounts.

Blue Crane Route Economic Entity

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Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The economic entity assesses annually whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the economic entity estimates the recoverable service amount of the asset.

Value in use

Value in use of an asset is the present value of the asset's remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the economic entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the economic entity recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Blue Crane Route Economic Entity

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Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The economic entity assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the economic entity estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.13 Employee benefits

Employee benefits are all forms of consideration given by an municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Blue Crane Route Economic Entity

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Accounting Policies

1.13 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Blue Crane Route Economic Entity

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Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

Blue Crane Route Economic Entity

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Accounting Policies

1.13 Employee benefits (continued)

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the consolidated annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.13 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.14 Provisions and contingencies

Provisions are recognised when:

- the economic entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the economic entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.14 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the economic entity

No obligation arises as a consequence of the sale or transfer of an operation until the economic entity is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

Transitional provision

The economic entity changed its accounting policy for provisions, contingent liabilities and contingent assets in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where provisions, contingent liabilities and contingent assets was acquired through a transfer of functions, the economic entity is not required to measure that provisions, contingent liabilities and contingent assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The economic entity acquired a transfer(s) of function in 2011 and provisions, contingent liabilities and contingent assets has accordingly been recognised at provisional amounts, as disclosed in 19.

Until such time as the measurement period expires and provisions, contingent liabilities and contingent assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets, the economic entity need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets implies that any associated presentation and disclosure requirements need not be complied with for provisions, contingent liabilities and contingent assets not measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.15 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the economic entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the economic entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the economic entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the economic entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the economic entity, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the economic entity's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an economic entity, which represents an increase in net assets, other than increases relating to contributions from owners.

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the economic entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an economic entity either receives value from another economic entity without directly giving approximately equal value in exchange, or gives value to another economic entity without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting economic entity.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the economic entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the economic entity.

When, as a result of a non-exchange transaction, the economic entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

The economic entity recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Debt forgiveness and assumption of liabilities

The economic entity recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the fair value of the debt forgiven. Where debt is carried at a value other than fair value, the receivable is recognised at the carrying amount.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the economic entity.

Where the economic entity collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the economic entity, and the fair value of the assets can be measured reliably.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the economic entity and the fair value of the assets can be measured reliably.

1.17 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.18 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the economic entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.11 and 1.12. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the economic entity completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.18 Borrowing costs (continued)

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23 Use of estimates

The preparation of consolidated annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the economic entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated annual financial statements are disclosed in the relevant sections of the consolidated annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.24 Presentation of currency

These consolidated annual financial statements are presented in South African Rand which is the functional currency of the municipality.

1.25 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.26 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.27 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the economic entity has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.28 Budget information

Economic Entity are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by economic entity shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The consolidated annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the consolidated annual financial statements. Refer to note 49.

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice on a basis consistent with the prior year except except for the withdrawal of the following new or revised standards as per Directive 5 as issued by the Accounting Standard Board and for the adoption of the following new or revised standards.

- IAS 32 Financial Instruments: Presentation withdrawn.
- IAS 39 Financial instruments: Recognition and Measuremen withdrawn.
- IAS 19 Employee Benefits withdrawn but the municipality opted to continue until GRAP 25 becomes operative.
- IFRS 7 Financial instruments: Disclosures withdrawn.
- Policy for Financial Instruments based on GRAP 104 adopted.
- Policies for Impairments based on GRAP 21 and GRAP 26 adopted.
- Policy for Non - exchange Transactions based on GRAP 23 adopted.

Blue Crane Route Economic Entity
Consolidated Annual Financial Statements for the year ended 30 June 2011

Notes to the Consolidated Annual Financial Statements

3. New standards and interpretations

3.1 Standards and interpretations issued, but not yet effective

The economic entity has not applied the following standards and interpretations, which have been published and are mandatory for the economic entity's accounting periods beginning on or after 01 July 2011 or later periods:

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the economic entity.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

The effective date of the standard is for years beginning on or after 01 April 2012.

The economic entity expects to adopt the standard for the first time in the 2013 consolidated annual financial statements.

It is unlikely that the standard will have a material impact on the economic entity's consolidated annual financial statements.

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the economic entity. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the economic entity's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2013.

The economic entity does not envisage the adoption of the standard until such time as it becomes applicable to the economic entity's operations.

It is unlikely that the standard will have a material impact on the economic entity's consolidated annual financial statements.

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the economic entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Blue Crane Route Economic Entity
Consolidated Annual Financial Statements for the year ended 30 June 2011

Notes to the Consolidated Annual Financial Statements

3. New standards and interpretations (continued)

Where an entity prepares its budget and consolidated annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary consolidated annual financial statements. Where the budget and consolidated annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the consolidated annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and consolidated annual financial statements:
- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The economic entity does not envisage the adoption of the standard until such time as it becomes applicable to the economic entity's operations.

It is unlikely that the standard will have a material impact on the economic entity's consolidated annual financial statements.

GRAP 103: Heritage Assets

Grap 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognised as an asset only if:
- it is probable that future economic benefits or service potential associated with the asset will to the economic entity; and
- the cost of fair value of the asset can be measured reliably.

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

Grap 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

Grap 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Notes to the Consolidated Annual Financial Statements

3. New standards and interpretations (continued)

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Grap 103 states that a heritage asset should not be depreciated but an entity should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The entity should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:

- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

The effective date of the standard is for years beginning on or after 01 April 2012.

The economic entity does not envisage the adoption of the standard until such time as it becomes applicable to the economic entity's operations.

It is unlikely that the standard will have a material impact on the economic entity's consolidated annual financial statements.

GRAP 21: Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

An economic entity assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Notes to the Consolidated Annual Financial Statements

3. New standards and interpretations (continued)

An economic entity assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, an entity estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The economic entity does not envisage the adoption of the standard until such time as it becomes applicable to the economic entity's operations.

It is unlikely that the standard will have a material impact on the economic entity's consolidated annual financial statements.

GRAP 26: Impairment of cash-generating assets

Cash-generating assets are those assets held by an economic entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, an economic entity estimates the recoverable amount of the asset. When estimating the value in use of an asset, an economic entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and an economic entity applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an economic entity determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Notes to the Consolidated Annual Financial Statements

3. New standards and interpretations (continued)

An economic entity assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, an economic entity estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The economic entity does not envisage the adoption of the standard until such time as it becomes applicable to the economic entity's operations.

It is unlikely that the standard will have a material impact on the economic entity's consolidated annual financial statements.

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an economic entity to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an economic entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an economic entity in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an economic entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the economic entity that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an economic entity provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity's decision to terminate an employee's employment before the normal retirement date; or
  - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

Blue Crane Route Economic Entity

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Notes to the Consolidated Annual Financial Statements

3. New standards and interpretations (continued)

- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2013.

The economic entity does not envisage the adoption of the standard until such time as it becomes applicable to the economic entity's operations.

It is unlikely that the standard will have a material impact on the economic entity's consolidated annual financial statements.

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one economic entity and a financial liability or residual interest in another economic entity. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

Blue Crane Route Economic Entity

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Notes to the Consolidated Annual Financial Statements

3. New standards and interpretations (continued)

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle an economic entity to a portion of another economic entity's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, an economic entity considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where an economic entity subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another economic entity on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. An economic entity measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. A economic entity is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, an economic entity can however designate such an instrument to be measured at fair value.

A economic entity can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once an economic entity has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Notes to the Consolidated Annual Financial Statements

3. New standards and interpretations (continued)

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, a economic entity has transferred control of the asset to another economic entity.

An economic entity derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an economic entity modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

An economic entity cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for an economic entity's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an economic entity is exposed to as a result of its consolidated annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. A economic entity is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2013.

The economic entity does not envisage the adoption of the standard until such time as it becomes applicable to the economic entity's operations.

The impact of this amendment is currently being assessed.

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

4. Investment property

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	1	-	1	1	-	1

Reconciliation of investment property - 2011

	Opening balance	Total
Investment property	1	1

Reconciliation of investment property - 2010

	Opening balance	Total
Investment property	1	1

The total direct and indirect operating expenses (including repairs and maintenance) for all municipal properties was R 3 961 503, repairs and maintenance R 5 666.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

The values were determined by Mr Hein Mcleod the Municipal valuer who is a Registered Professional Valuer with the South African Board for Valuers, Registration No. 3257. He is also a member of the South African Institute of Valuers.

Rental income from investment properties in respect of monthly and annual leases amounted to R 243 092.

Transitional provisions

Due to a transfer of functions

The municipality elected to adopt the transitional provisions for GRAP 16, Investment property, as per paragraph 67 of Directive 4. According to the transitional provisions, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts. The transitional provision expires on 30 June 2012.

Blue Crane Route Economic Entity
Consolidated Annual Financial Statements for the year ended 30 June 2011

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

5. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	1	-	1	1	-	1
Buildings	2 499 112	-	2 499 112	2 132 196	-	2 132 196
Furniture and fixtures	84 323	(69 731)	14 592	84 323	(62 919)	21 404
Motor vehicles	3 354 559	-	3 354 559	2 201 809	-	2 201 809
Office equipment	24 796	(23 661)	1 135	23 027	(23 023)	4
IT equipment	177 827	(145 759)	32 068	170 561	(125 959)	44 602
Infrastructure	36 526 191	-	36 526 191	18 776 186	-	18 776 186
Other equipment	360	(359)	1	360	(359)	1
Capital work in progress	1 595 043	-	1 595 043	1 595 043	-	1 595 043
Heritage	32 833	(2 070)	30 763	-	-	-
Other property, plant and equipment	7 074 957	-	7 074 957	6 206 420	-	6 206 420
Total	**51 370 002**	**(241 580)**	**51 128 422**	**31 189 926**	**(212 260)**	**30 977 666**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Depreciation	Total
Land	1	-	-	1
Buildings	2 132 196	366 916	-	2 499 112
Furniture and fixtures	21 404	-	(6 812)	14 592
Motor vehicles	2 201 809	1 152 750	-	3 354 559
Office equipment	4	1 769	(638)	1 135
IT equipment	44 602	7 266	(19 800)	32 068
Infrastructure	18 776 186	17 750 005	-	36 526 191
Other equipment	1	-	-	1
Capital work in progress	1 595 043	-	-	1 595 043
Tourism Hub - equipment	-	32 833	(2 070)	30 763
Other property, plant and equipment	6 206 420	868 537	-	7 074 957
	30 977 666	**20 180 076**	**(29 320)**	**51 128 422**

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Transfers	Depreciation	Total
Land	1	-	-	-	1
Buildings	1	2 133 219	(1 024)	-	2 132 196
Furniture and fixtures	28 215	-	-	(6 811)	21 404
Motor vehicles	2 201 809	-	-	-	2 201 809
Office equipment	2	2 560	-	(2 558)	4
IT equipment	56 068	15 818	-	(27 284)	44 602
Infrastructure	9 892 318	9 178 544	(294 676)	-	18 776 186
Other equipment	1	-	-	-	1
Capital work in progress	-	1 627 117	(32 074)	-	1 595 043
Other property, plant and equipment	3 247 380	2 960 514	(1 474)	-	6 206 420
	15 425 795	**15 917 772**	**(329 248)**	**(36 653)**	**30 977 666**

Prior period error note 42		
Balance previously reported	-	30 738 561
Adjusted for infrastructure take on	-	15 936
Adjusted for finance leases	-	265 006
Adjusted for transfers affecting prior 2010 assets	-	(41 837)
Restated	**-**	**30 977 666**

Pledged as security

Carrying value of assets pledged as security:

	2011	2010
Motor vehicles	2 201 809	2 201 809
Office equipment	1 213 990	1 105 127

These assets were acquired on a finance lease as per GRAP 13 on a basis that the assest do not become the property of the municipality at the end of the lease terms and continue to be the property of the lessors.

Capitalised expenditure(excluding borrowing costs)

	2011	2010
Other property, plant and equipment	1 213 990	1 105 127
Capital work in progress	1 595 043	1 627 117
	2 809 033	**2 732 244**

Transitional provisions

Property, plant and equipment recognised at provisional amounts

The municipality elected to adopt the transitional provisions for the implementation of GRAP. In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 2, certain property, plant and equipment have been recognised at R1 and additions of 2011 , 2010 and 2009 were regognised at cost. The municipality is in the process of appointing service providers to determine the infrastructure componatisation and values. This excercise is expected to be finalised in 12 months.

The service entity, Blue Crane Development Agency applies Directive 2, therefore the economic entity discloses depreciation and accumulated depreciation on this financial statements even though the economic entity applies Directive 4.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the economic entity.

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

6. Intangible assets

	2011			2010		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Intangible assets	4 536	-	4 536	4 536	-	4 536

Reconciliation of intangible assets - 2011

	Opening balance	Total
Intangible assets	4 536	4 536

Reconciliation of intangible assets - 2010

	Opening balance	Additions	Total
Intangible assets	1	4 535	4 536

Transitional provisions

Intangible assets recognised at provisional amounts

The municipality elected to adopt the transitional provisions for the implementation of GRAP. In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 2, certain intangible assets have been recognised at R1 and additions of 2011 , 2010 and 2009 were regognised at cost. The municipality is in the process of appointing service providers to determine the infrastructure componatisation and values. This excercise is expected to be finalised in 12 months

7. Investments in controlled entities

Name of company	Held by	% holding 2011	% holding 2010	Carrying amount 2011	Carrying amount 2010
Blue Crane Route Development Agency	Blue Crane Route Municipality	100.00 %	100.00 %	3 177 807	1 831 809

Restrictions relating to Controlled entities

The 100% investment in this Service entity (subsidiary) was acquired at no cost. Therefore no value can be reflected on the face of the Statement of Financial Position.

8. Other financial assets

	2011	2010
Loans and receivables Long term loans Loans are repayble in monthly installments over periods of three to twenty years. Certain loans have a fixed interest rate of 5% and others are linked to prime interest rate	26 408	203 506
Non-current assets Loans and receivables	23 692	121 102
Current assets Loans and receivables	2 716	82 404

Blue Crane Route Economic Entity

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Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

8. Other financial assets (continued)

	26 408	**203 506**
Comparative figures note 43		
Balance previously reported	-	82 099
Adjusted for long term debtors	-	305
Restated	-	**82 404**
Comparative figures note 43		
Balance previously reported	-	121 408
Adjusted for long term debtors	-	(306)
Restated	-	**121 102**

The economic entity has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

There were no gains or losses realised on the disposal of held to maturity financial assets in 2011 and 2010, as all the financial assets were disposed of at their redemption date.

Included in the above amount for loans and receivables is an amount of R95 209 (2010), which relates to a vehicle which was purchased on behalf of the mayor via a finance lease agreement with ABSA. The mayor pays the monthly instalments of the finance lease agreement upfront every month. The amount is repayable over three and a half years and interest is levied at prime less 1%. The mayor will be the owner of the vehicle at the end of the lease in 2011.

For debt securities classified as at fair value through surplus or deficit, the maximum exposure to credit risk at the reporting date is the carrying amount.

9. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2011

	Financial assets amortised	Total
Other financial assets	26 409	26 409
Other receivables from exchange transactions	441 501	441 501
Other receivables from non-exchange transactions	4 058 636	4 058 636
Cash and cash equivalents	23 654 605	23 654 605
Trade receivables from exchange transactions	8 777 571	8 777 571
	36 958 722	**36 958 722**

2010

	Financial assets amortised	Total
Other financial assets	203 506	203 506
Other receivables from exchange transactions	571 272	571 272
Other receivables from non-exchange transactions	1 020 314	1 020 314
Cash and cash equivalents	21 585 571	21 585 571
Consumer debtors	9 891 875	9 891 875
	33 272 538	**33 272 538**

Blue Crane Route Economic Entity

Consolidated Annual Financial Statements for the year ended 30 June 2011

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

10. Employee benefit obligations

Defined benefit plan

To value the PRMA liability in respect of all eligible Blue Crane Route Municipality employees who belong to one of the following medical schemes:Bonitas, Hosmed, Key Health, LA Health, Samwumed

Data was used in respect of 69 active members and 17 pensioners entitled to a post-retirement medical scheme contribution subsidy. The net decrease of 2 active employees can be attributed to 15 active employees leaving Blue Crane Route Municipality since the previous valuation, and 13 new active employees.

The entire zero-coupon South African Bond Yield curve as at 30 June 2011 in the PRMA valuation of Blue Crane Route Municipality was used. Therefore, a single assumption for the discount rate is not shown. This yield curve is different from the previous valuation, where we used the "Bond Exchange of South Africa" as a reference. The zero-coupon South African Bond Yield is a more reflective measure to use in this valuation.

Since the discount rates are described using a yield curve, a yield curve is also used to describe future medical inflation. Future medical inflation is assumed to be 1% lower than the valuation discount rate at each term to maturity.

The assumtion was made that the CPI to be 3% per annum lower than the discount rate at each term to maturity. It was believed that a long-term gap of approximately 3% between CPI and the valuation discount rate is reasonable for long term valuation purposes.

Post retirement medical aid plan

The calculation is based on 86 members (2010: 86) with an avrerage age of 50.3 (2010: 49.1) and 1.4 average dependants (2010: 1.3) and an average monthly contribution of R1,425.73 (2010: R1,606.21)

Blue Crane Route Economic Entity

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Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

10. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

	2011	2010
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	14 644 022	13 121 847
Service and interest cost	1 932 000	1 864 721
Benefits paid	(354 000)	(342 546)
Actuarial (gain) / loss recognised in the year	(2 440 000)	-
Net liability	**13 782 022**	**14 644 022**
Non-current liabilities	13 416 645	14 290 519
Current liabilities	365 377	353 503
	13 782 022	**14 644 022**

Real discount rate	**2%**	**1% (Base)**	**0%**
Accrued PS liability as at 30 June 2011	11 872 640	13 782 108	16 073 147
Plus Service cost	540 302	662 160	809 026
Plus interest cost	713 271	829 713	969 434
Less benefits paid during 2011/2012	(363 514)	(365 377)	(367 252)
Projected PS liability as at 30 June 2012	12 762 699	14 908 604	17 484 354
	25 525 398	**29 817 208**	**34 968 709**

The service cost in the above table represents the increase in the liability due to the additional years of service accrued by active members. For the base case, where we assumed that the gap or real discount rate was 1%, we project a service cost of R0.662 million for the year ahead. It should be noted that pensioners are not included in this figure since they do not accrue any extra years of service

The interest cost is based on the discount rate assumption for the current valuation which is based on the Zero-coupon Bond Yield Curve of South Africa as at 30 June 2011, the liability accrued as at 30 June 2011 and the contributions paid during the financial year.

The benefits paid during 2011/2012 is the estimated medical scheme contributions paid by Blue Crane Route Municipality with respect to PRMA receiving members during the period 1 July 2011 to 30 June 2012.

Changes in the present value of the defined benefit obligation are as follows:

	2011	2010
Opening balance	1 522 175	-
Net expense recognised in the statement of financial performance	1 578 000	1 522 175
Closing balance	**3 100 175**	**1 522 175**

Blue Crane Route Economic Entity
Consolidated Annual Financial Statements for the year ended 30 June 2011

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

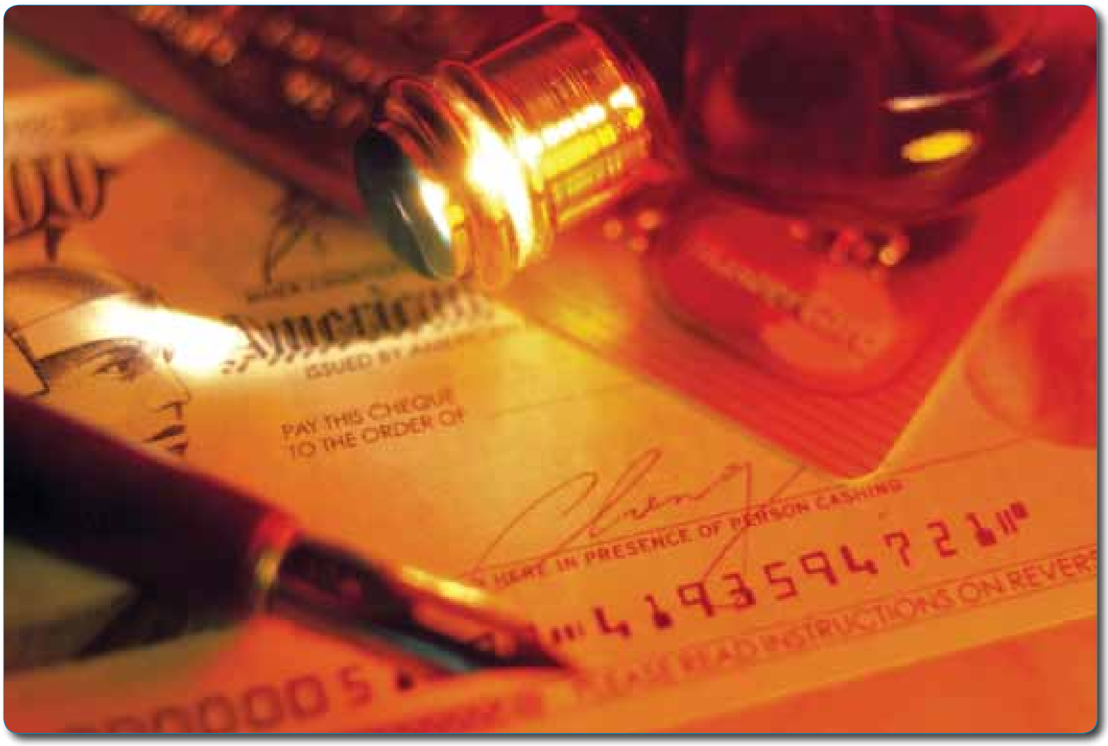
10. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

Current service cost	938 000	993 896
Interest cost	994 000	870 825
Benefits paid	(354 000)	(342 546)
Total included in employee related costs	**1 578 000**	**1 522 175**

Indicator	**Past service liability**	**Sensitivity to medical inflation**
1%	16 073 147	16.62%
Base	13 782 108	
-1%	11 872 640	-13.85%

These results indicate the extent to which the PRMA liability is sensitive to the difference between long-term medical inflation and the discount rate. The appropriate gap between these two long term rates is a matter of judgement, and the sensitivity of the results to the assumed gap does not mean that the central results are not reasonable.



Blue Crane Route Economic Entity

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Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

10. Employee benefit obligations (continued)

Key assumptions used

The past service liability has decreased by 5.89% since the previous valuation.
From the previous valuation, the past-service liability was expected to grow with interest, service cost and reduce by benefits paid to pensioners over the past year. The service cost represents the increase in the liability due to the additional year of service accrued by active members. The projected past-service liability as at 30 June 2011 based on the previous valuation is R16.222m, which represents an increase of 10.78%. However, the past service liability produced in this valuation is significantly lower at R13.782m, which represents a 5.89% decrease from the previous valuation. The reasons for this difference are outlined below:

1. Economic and actuarial assumptions:
The yield curve applied has been updated to be reflective for the current valuation period as at 30 June 2011. The actual investment return earned over the valuation period was lower than that expected at the previous valuation. This resulted in the interest and service cost being lower than what was projected in the previous valuation, therefore decreasing the past service liability for active members.
Medical inflation is specified in relation to the discount rate, which means that the expected benefits paid to pensioners were also overstated, resulting in lower projection and hence an increase to the past service liability.
Additionally, the fixed subsidy was assumed to increase in line with salary inflation in this valuation, as opposed to medical inflation in the previous valuation. This means that the fixed subsidy increases at a lower rate than in the previous valuation, resulting in a decrease in liability.
The overall effects combined result in a small decrease in liability, namely 0.70%.

2. Subsidy policy
Based on the expectation in the previous valuation that the fixed subsidy increases in line with medical inflation, the fixed subsidy was anticipated to increase from R2,950.80 to R3,154.08 at a rate of 6.89% (assumed medical inflation in the previous valuation). However, the actual fixed subsidy in 2011 was provided to be R3,092.55, which represents an actual increase of 4.80% from the previous valuation. This causes in a slight decrease in liability.
Additionally, the subsidy policy has changed from awarding a 70% to all active employees and pensioners in the previous valuation, to awarding a 60% subsidy to active employees, and either 60% or 70% to pensioners in this valuation. This decreases the liability substantially, as it is assumed that Blue Crane Route Municipality provides a 10% lower subsidy to the majority of the employees.
The overall effect was a significant decrease in liability of 10.66%.

3. Medical contribution increases
The medical aid contributions are expected to increase with medical inflation, which was expected to be 6.89% in the previous valuation. Upon investigation of the actual medical contribution rates in 2011, it was found that the rates increased by an average of 10.02%, representing a much higher rate than what was anticipated.
This has resulted in an increase in liability of 2.08%.

4. Membership changes
There has been a net decrease in membership of 2 active members, attributable to 15 active members leaving, and 13 new active members joining Blue Crane Route Municipality. Upon investigation of these membership changes, it was found that the average past service liability of the new active members in this valuation is 32.34% lower than the average past service liability of the leaving active members in the previous valuation.
This change has caused a decrease in liability of 5.76%.
The combined effect of all the above changes was a significant decrease in liability of 5.89%.

11. Inventories

	2011	2010
Work in progress	2 238 591	378 950
Consumable stores	760 296	615 714
	2 998 887	**994 664**

Stores issued amounted to R 1 061 880 and R 1 394 713 (2010).

Blue Crane Route Economic Entity

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Figures in Rand	2011	2010

12. Other receivables from exchange transactions

IDC	-	15 132
Employee costs in advance	11 696	17 332
Deposits	14 000	979
Other receivables	415 805	537 829
	441 501	**571 272**

Other receivables is a financial asset which is classified as loans and receivables. No amortisation was applied.

Fair value is estimated at cost.

13. Other receivables from non-exchange transactions

Government grants and subsidies	3 565 427	89 928
Property rates	260 929	403 538
Other receivables from non-exchange revenue	232 280	526 848
	4 058 636	**1 020 314**

Property rates		
Porperty rates	2 911 094	2 293 515
Provision for bad debts: Property rates	(2 650 165)	(1 889 977)
	260 929	**403 538**

Property rates age analysis		
Current (0-30days)	204 082	331 445
31-60 days	53 238	56 178
61-90 days	96 563	34 667
91-120 days	18 052	31 886
> 121 days	2 539 159	1 839 339
	2 911 094	**2 293 515**

Provision for bad debts: Property rates		
Impairment balance prior year	(1 889 977)	(1 635 074)
Contributions to provision	(1 127 686)	(254 903)
Debt impairment written off against provision	367 498	-
	(2 650 165)	**(1 889 977)**

Prior period error note 42		
Balance previously reported	-	1 647 450
Adjusted for 50% of property rates written off	-	(627 715)
Adjust for VAT (Reclassification) Refer note 14	-	28
Adjust for cashier shortage	-	580
Adjust for councillors backpay	-	(29)
Restated	-	**1 020 314**

As of 30 June 2011, other receivables from non-exchange transactions of R 1 127 686 (2010: R 254 903) were impaired and provided for.
The amount of the provision was R 2 650 165 as at 30 June 2011 (2010: R 1 889 977).

Other receivables from non-exchange transactions are financial assets classified as loans and receivables. No amortisation was applied. Fair value was estimated at cost.

Blue Crane Route Economic Entity

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Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

13. Other receivables from non-exchange transactions (continued)

Credit quality of other receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Fair value of other receivables from non-exchange transactions

	2011	2010
Other receivables from non-exchange transactions	4 058 607	1 020 314

The fair value has been determined by using the face value of the outstanding capital.

14. Trade receivables from exchange transactions

	2011	2010
Gross balances		
Electricity	6 269 623	5 371 184
Water	7 918 202	7 262 691
Sanitation	1 316 779	1 473 561
Sewerage	3 667 942	3 593 229
Refuse	5 980 802	5 812 107
Other	903 046	1 241 546
	26 056 394	**24 754 318**
Less: Provision for debt impairment		
Electricity	(1 666 087)	(1 287 512)
Water	(6 051 780)	(5 007 944)
Sanitation	(1 080 462)	(1 178 100)
Sewerage	(2 865 694)	(2 473 034)
Refuse	(4 785 192)	(4 169 450)
Other	(829 608)	(746 403)
	(17 278 823)	**(14 862 443)**
Net balance		
Electricity	4 603 536	4 083 672
Water	1 866 422	2 254 747
Sanitation	236 317	295 461
Sewerage	802 248	1 120 195
Refuse	1 195 610	1 642 657
Other	73 438	495 143
	8 777 571	**9 891 875**
Electricity		
Current (0 -30 days)	3 426 400	3 046 082
31 - 60 days	629 969	484 305
61 - 90 days	250 533	335 134
91 - 120 days	208 835	195 794
>121 days	1 753 886	1 309 869
	6 269 623	**5 371 184**

Blue Crane Route Economic Entity

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Figures in Rand	2011	2010

14. Trade receivables from exchange transactions (continued)

	2011	2010
Water		
Current (0 -30 days)	981 556	785 490
31 - 60 days	384 424	332 669
61 - 90 days	405 064	286 490
91 - 120 days	329 834	263 089
>121 days	5 817 324	5 594 953
	7 918 202	**7 262 691**
Sanitation		
Current (0 -30 days)	61 961	87 712
31 - 60 days	14 101	24 208
61 - 90 days	13 927	23 737
91 - 120 days	13 518	23 436
>121 days	1 213 271	1 314 468
	1 316 778	**1 473 561**
Sewerage		
Current (0 -30 days)	428 375	362 155
31 - 60 days	134 895	131 147
61 - 90 days	117 510	116 158
91 - 120 days	113 352	107 563
>121 days	2 873 810	2 876 206
	3 667 942	**3 593 229**
Refuse		
Current (0 -30 days)	582 307	548 934
31 - 60 days	202 453	215 991
61 - 90 days	185 128	200 195
91 - 120 days	180 007	192 994
>121 days	4 830 907	4 653 993
	5 980 802	**5 812 107**
Other (specify)		
Current (0 -30 days)	46 388	-
31 - 60 days	15 567	-
61 - 90 days	79 249	-
91 - 120 days	10 525	-
>121 days	751 317	1 241 546
	903 046	**1 241 546**